

THE 200 BEST SMALL
COMPANIES IN THE U.S.

GM'S NEW GURU
FOR MARKETING

WHY SMART MONEY IS
BUYING GOLD STOCKS

NOVEMBER 14, 1988

THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

CRY, BABY



**THE INTERGENERATIONAL
TRANSFER OF WEALTH**

*****5-DIGIT 20814
12910378 0015Z
STATISTICAL REF INDEX ZZ 0057
CONGRESSIONAL INFO SER
4520 EASTWEST HWY
BETHESDA MD 20814



Cover illustration by Greg Couch



42 Komatsu Dresser Co.'s Ytterberg and Umeda

NOVEMBER 14, 1988
VOLUME 142
NUMBER 11

THE EDITORIAL INDEX
OF COMPANIES REFERRED
TO IN THIS ISSUE
IS ON PAGES 372 AND 373.

COVER STORY

222 Consuming Our Children?

By Subrata N. Chakravarty
with Katherine Weisman

Many young people complain that they can't live as well as their parents did. They may well be right.

COMPANIES

42 Komatsu Dresser Co.

By Jerry Flint

Proud U.S. manufacturer Dresser concedes that the Japanese are better at manufacturing. Enter Komatsu.

52 Guardian Savings & Loan

By William P. Barrett

High-profit, no-frills thrift.

66 Valley Capital Corp.

By Marc Beauchamp

No more does it have the gaming industry to itself. So why is Peter Thomas smiling?

76 Premark International

By Steve Weiner

It's the odds and ends Kraft Inc. didn't want. The orphan is doing well.

98 Wheelabrator Technologies

By James Cook

Mike Dingman seems to have solved Wheelabrator's big problem.

108 Southwest Airlines

By John H. Taylor

Herb Kelleher moves his strong regional carrier into bigger leagues.

117 Hillenbrand Industries

By Alyssa A. Lappen

What if you are a dominant producer and your market stops growing?

124 Caesars World

By Ellen Paris

Henry Gluck's cold eye.

153 Columbia Savings & Loan

By John Heins

Why it's selling at half the P/E other profitable thrifts command.

164 The Up & Comers: Varitronic Systems

By Alyssa A. Lappen

Scott Drill is a satisfied young man.

172 Ford Motor Co.

By Jerry Flint

Nine million units of overcapacity ahead for the auto industry, says Ford's chairman.

174 Hubbell Inc.

By Kerry Hannon

A quiet company? Yes, but not sleepy.

182 Union Pacific Railroad

By Jack Willoughby

Turmoil at the top took its toll. Then came Drew Lewis.

194 Tyco Laboratories

By Laura Jereski

John Fort has trebled its revenues without adding to his corporate staff.

205 Media General

By James Cook

They laughed when Dick Scudder sought a way to recycle old newsprint.

210 D.A. Davidson: Just Plain Folks

By Richard L. Stern

However cold to stocks they may be in the rest of the country, folks in Montana are still buying them.

248 Mattel

By Marc Beauchamp

It's relying on golden oldies.

281 The 200 Best Small Companies In America

*By Steve Kichen, Evan Sturza
and Graham Button*

Annual ranking of high-quality growth companies; the executives who run them and how much they're paid.

INDUSTRIES

45 Bill Cosby Versus Bill Cosby

By Richard Bebar

TV networks lose every time they have a winning program.

46 King Caviar

By Phyllis Berman with Dana Wechsler

The fiercely competitive fray.

GOVERNMENT

159 But Don't Make Them Hiss

By Janet Norack

How local governments have mastered the art of back-door taxation.

ON THE DOCKET

97 Legal Mayhem

By Ronald Bailey

Blame a lot of the U.S. trade deficit on our system of tort liability.

INTERNATIONAL

47 Ladbroke Group Plc.

By Howard Rudnitsky

Britain's gambling king made a billion off somebody else's deal.

56 Land Poor

By Richard Phalon

Can Tokyo become the world's financial capital? Not unless it cures its land price madness.

82 Virgin Group

By Lisa Gubernick

In Great Britain, Richard Branson is a business folk hero. Not here.

94 More Capital, Less Venture

By Richard Phalon

The Japanese venture capital industry: a decidedly mixed record.

130 Fiat SpA

By Peter Fuhrman

The auto giant is now soundly profitable and staring down the Japanese.

204 As I See It: Barber Conable

By Robert T. Grieses

Poor countries can't afford to worry too much about the environment. World Bank chief Conable says he is trying to change that.

332 The Free World's Vital Anchor

By Bert Brechner

On the road with Malcolm Forbes and The Friendship Tour of Turkey.

INVESTING

44 Wall Street Madness

By Allan Sloan

Who'll be left when the music stops?

74 Steals In Stubs

By Matthew Schiffrin

When a company guts itself to ward off raiders, it sometimes creates bargains for risk-taking investors.

88 Look Before You Leave

By Ruth Simon

Good news, bad news on pensions.

176 Money Men: Waiting for Godot?

By Jonathan Clements

Investing for masochists.



194 Tyco Laboratories' John Fort

180 The Funds: Make Lemonade

By Jonathan Clements

When it makes good sense to buy a fund with a sour performance history.

236 Why Smart Money Is Buying Gold Stocks

By Howard Rudnitsky

Why are Harry Oppenheimer, Sam Zell and the Bronfmans buying into gold mining companies?

370 Streetwalker

Megadeal frenzy; growth stocks redux; Goodyear Tire & Rubber Co.; bargains in specialty steels. —

NUMBERS GAME

200 Why Not?

By Penelope Wang

Muni bond insurers needn't have reserves against potential defaults.

TAXING MATTERS

215 Which Shell Has The Loss?

By Laura Saunders

Congress' feeble try at outlawing "trafficking" in tax losses.

COMPUTERS/COMMUNICATIONS

250 Printer's Ink

By Fleming Meeks

Don't buy a printer without thinking about how to get supplies for it. Also: Users' problems; mixed media.

SCIENCE & TECHNOLOGY

258 Attention, Shoplifters!

By Eric Schmuckler

Antitheft devices are smarter and smaller than ever. Also: Power tool.

MARKETING

267 GM's New Marketing Guru

By Jerry Flint

Chastened and refocused, it is taking marketing mighty seriously. Also: Coffee at \$4 a cup.

PERSONAL AFFAIRS/CAREERS

346 Holding The Line

By William G. Flanagan

Getting behind the wheel of a race car. Also: What's new in two-wheelers; do-it-yourself Treasuries.

350 Confidence Course

By Dyan Machan

Harvard's \$24,000, 12-week program for middle managers.

DEPARTMENTS

- 8 Side Lines
- 12 Follow-Through
- 16 The Informer
- 22 Readers Say
- 25 Fact and Comment
- 30 Other Comments
- 33 Fact and Comment II
- 375 Flashbacks
- 376 Thoughts

COLUMNISTS

- 361 Ben Weberman
- 362 Kenneth L. Fisher
- 364 Ashby Bladen
- 366 Mark Hulbert
- 367 David A. Levy

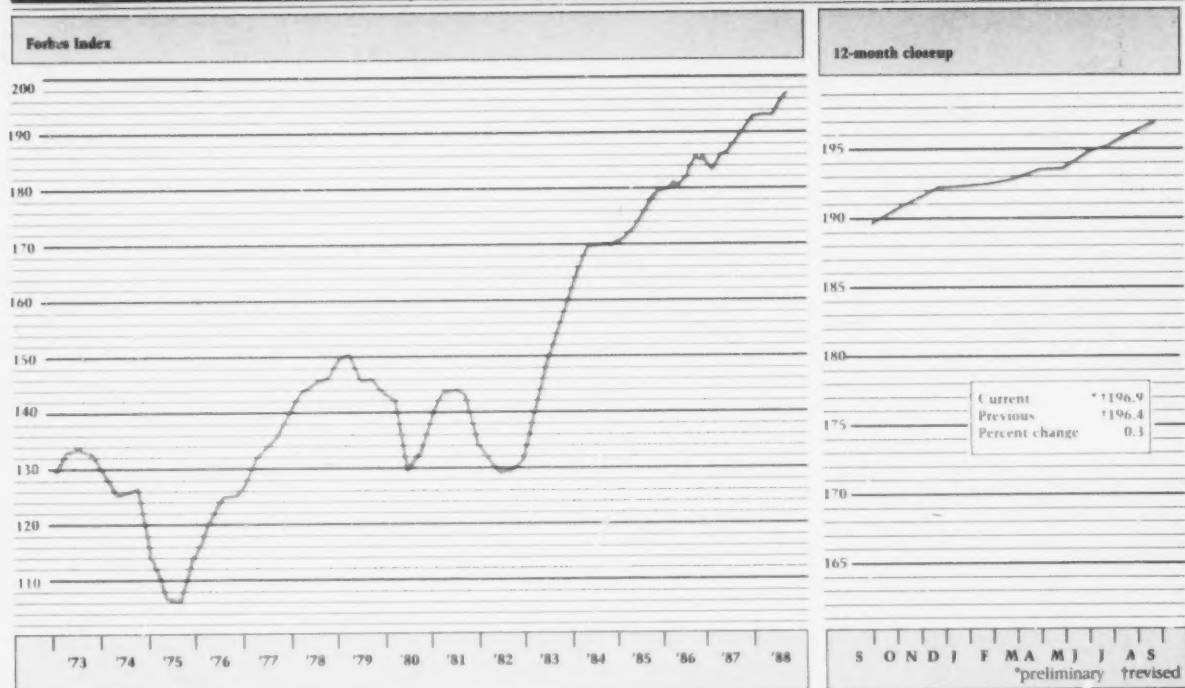
MONEY & INVESTMENTS

- 37 What's Ahead For Business
- 38 The Forbes Index
- 357 The Forbes/Wilshire 5000 Review

FACES BEHIND THE FIGURES

- 354 Melvin Howard, Xerox Financial Services
- 354 Soichiro Yoshimura, Kobe Steel USA
- 355 Gresham Brebach, Information Consulting Group
- 355 David Roe, Environmental Defense Fund

The Forbes Index



Under pressure. The overall economy rolls along but is a bit out of shape. While the seasonally adjusted Consumer Price Index was up only 0.3% in September, the nonadjusted index jumped 0.7%. Higher food and apparel costs were responsible for pushing up both figures. Meanwhile, the housing market continues on its sluggish course. The

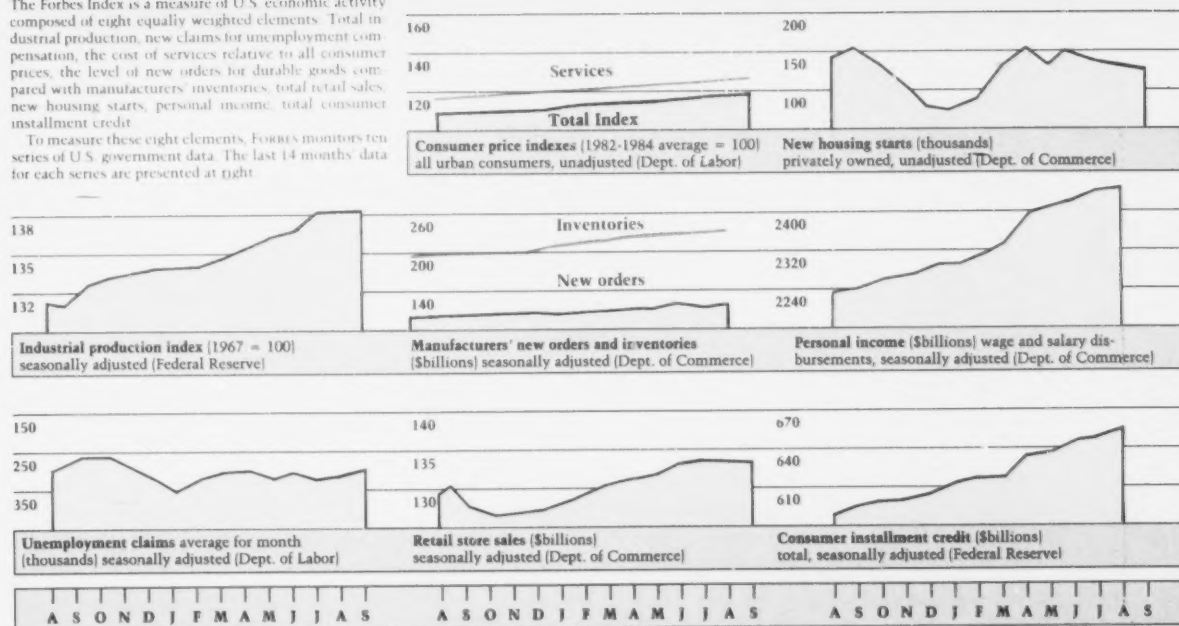
131,000 new housing starts in September were 14.1% below the September 1987 number.

New unemployment claims dipped to 289,000 in September, their lowest point since October 1987—reflecting a continued decline in the overall unemployment rate, now at 5.4%.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



was going to \$100 a barrel.

The scene shifts, but the tendency to delusion remains. Corporate managers dream of becoming overnight millionaires by leading leveraged buyouts of their own companies. The news media, meanwhile, play their part: They fawn over people who have become overnight zillionaires in the takeover game. Ron Perelman. Don Kelly. Carl Icahn. It makes them into glamorous figures. Everybody wants

to be like them.

Look at how the game is played. You buy a big diversified company with mostly borrowed money. Then you start selling off pieces to the point where you have gotten most of the purchase price back but you still own a big chunk of the business. Perelman did it with Revlon, Icahn with ACF.

Isn't making two plus two equal six crazy arithmetic? Yes, but it works—as long as buyers can peddle some

newly acquired assets at even higher prices than they paid for them. In other words, you need a greater fool to keep the game of musical chairs going. Yes, we paid a stiff price, but we can sell parts for even stiffer prices.

But for how long? As one arbitrator with a sense of history puts it: "People have to eat during a recession, but they don't have to pay up for assets." Meanwhile, he's cashing in, and laughing all the way to the bank. ■

Under the current rules, TV networks lose every time they have a winning program—and the syndicators walk off with the loot.

Bill Cosby versus Bill Cosby

By Richard Bohar

TELEVISION SITCOMS thrive on irony, and what could be more ironic than NBC's new relationship with *The Cosby Show*? Developed largely with NBC's risk capital, *Cosby* became one of the most successful

sitcom series in TV history, helping lift NBC to the number one slot among networks in both ratings and profits. But last month *The Cosby Show* entered syndication on rival independent stations around the country, putting NBC in the unhappy position of being fought and sometimes beaten

with its own product.

The *Cosby* reruns are now cutting into audience shares of competing TV stations everywhere, sometimes including NBC affiliates. Syndicated *Cosby* reruns now air on independent stations at 7:00 p.m. in both New York and Washington, directly opposite the time slot in those cities for the *NBC Nightly News*, which has suffered an average 20% Nielsen ratings drop in the New York and Washington markets, in good part as a result of this competition.

Original prime-time episodes of *The Cosby Show* also continue to air network-wide on NBC one hour later on Thursdays. NBC fears that those ratings will continue to droop as more and more *Cosby* addicts get their nightly fix, five times a week, on syndicated reruns. "How is it that a show on which we risked millions to develop, promote and nurture can now turn around and sting us?" asks John Agoglia, a top NBC executive.

That question is at the heart of secret talks that began last month at NBC's New York headquarters among the three networks and several of Hollywood's leading studios. At issue is whether the networks will be permitted to share in the profits of the syndication business. Syndicating network reruns to independent TV stations, cable outlets and foreign markets was once viewed as the low-rent end of the TV business. But in recent years it has evolved into a wildly lucrative yet destabilizing force in network programming.

Why can't the networks produce their own shows and withhold them from the competition? Federal regulations. Regulations enacted by the Federal Communications Commission in 1970 bar ABC, NBC and CBS from sharing in the syndication proceeds of the programs they broadcast. A 1980 ten-year consent decree with the U.S. Justice Department further restricted network power by severely limiting the amount of programming the networks could actually own and produce, let alone syndicate.

Syndie success stories

These current prime-time shows have also begun airing as syndicated reruns within the last two years. With the revenues streaming in, now the networks want a cut of the action.

Program	Network	Syndicator	Debut		Estimated value (per syndicated episode)
			network	syndication	
Miami Vice*	NBC	MCA-TV	1981	1988	\$300,000
Family Ties	NBC	Paramount	1982	1987	1.6 mil
Cheers	NBC	Paramount	1982	1987	1.6 mil
Newhart	CBS	MTM Productions	1982	1987	1.0 mil
Simon & Simon	CBS	MCA-TV	1982	1987	800,000
The Cosby Show	NBC	Viacom Enterprises	1984	1988	5.0 mil
Night Court	NBC	Warner Brothers	1984	1988	2 mil
Murder, She Wrote*	CBS	MCA-TV	1984	1988	3.5 mil

*On cable (USA Network).

Those federal rules were intended to prevent the then powerful networks from gaining virtual monopoly control over the entertainment their stations carried. The reasoning echoed a 1949 U.S. Supreme Court ruling that barred Hollywood studios from owning the theater chains that showed their films.

However real the threat may have been a couple of decades ago, since then the economics of the television industry have changed radically, and the networks have lost a great deal of their financial clout. Their share of the total television viewing audience has dropped from 90% in 1977 to 68% currently, as viewers have switched increasingly to cable TV, videocassettes and independent broadcast stations, which themselves have more than tripled in number in the last ten years. In the process, independent syndicators such as Viacom (FORBES, Oct. 31) and the syndication departments of the Hollywood studios have rapidly grown into a \$3-billion-a-year business.

Of the three networks, NBC has been hit the hardest, largely because it has been so successful recently in developing popular shows. The hit game show *Wheel of Fortune* is doing far better in syndication in the evening than in its morning network time slot. In addition, NBC currently airs five of eight network series, earlier episodes of which have entered syndication to rival stations and cable systems just within the last two years (see table, previous page).

The syndicators who package and market these deals have clearly emerged as TV's new power brokers. "Only 15 years ago a syndicator was a shabbily dressed guy who dropped off a typed list of available programs," recalls Steven Bell, the general manager of station KTLA in Los Angeles. "Today they're slick, well researched, and they bombard you with hype and excitement."

Behind the power of the syndicators are some compelling economics. Back in the early 1970s, network hits rarely went into syndication before their network runs had ended. Some, like *Bonanza*, ran as long as ten years in network prime time before being recycled to independent stations as syndicated reruns.

But the cost of producing prime-time programming has doubled since 1980 to over \$1 million per hour. Of this only about 75% is covered by network licensing fees. This has forced the producers of the shows to offer them into syndication earlier and earlier to recoup their out-of-pocket

costs. These days shows begin airing in syndication within four years of starting in prime time, and sometimes the syndie deals are cut a lot sooner than that. The ABC hit *Growing Pains* was sold into syndication by Warner Brothers after its first season on the air—something that would have been unthinkable in the old days.

Today's syndie deals may help to bail out the producers, but they leave the networks facing competition that they financed and promoted themselves.

So the networks want the studios, independent producers and program syndicators to let them in on a share of the revenues from syndication. That is what the talks now under way are all about, and the networks may in fact get what they want. Why? For one

thing, the FCC, under its activist chairman, Dennis Patrick, has made it clear that if both sides compromise on the syndication question, the commission will rewrite its rules accordingly. Moreover, in 1990 the ten-year consent decree with the Justice Department will expire, giving the networks the right to produce and own all their prime time.

The studios know well enough that right now the networks lack both the resources and expertise to produce large volumes of their own programming. But the last thing Hollywood wants is for the networks to start trying to compete anyway. The best way to forestall that possibility, it would seem, is for the syndicators to invite the networks back to the party. ■

For most people those tiny black fish eggs are a symbol of wealth and ostentation. For the Petrossian family caviar is the backbone of a \$50 million business.

King caviar

By Phyllis Berman
with Dana Wechsler

A LONG WITH CHAMPAGNE, caviar is one of the great symbols of luxury and ostentation. No wonder: At around \$17 to \$38 an ounce at retail, Caspian Sea sturgeon's eggs are perhaps the most expensive food you can buy. Strange: The sturgeon itself is a hideously ugly fish and a scavenger to boot. But because caviar is coveted, it is the stuff of high politics and lowly intrigue.

Late in 1987, the U.S. banned all imports from Iran, including caviar, and both this year and last the Russian catch of sturgeon from the Caspian Sea has been disappointing. There simply hasn't been enough caviar available. The result has been a mad scramble among dealers.

For all its fame and glitter, caviar isn't big money: Americans ate just 103,000 pounds of top-of-the-line im-

ported caviar worth around \$20 million last year. They ate another 2 million or so pounds of \$2-and-up-per-ounce imported and domestic fish eggs worth an estimated \$30 million.

What with the Iranian embargo and poor fishing in the Caspian Sea, the most prized caviar, beluga, became almost unobtainable last year, and prices of the somewhat cheaper osetra and sevruga caviar rose by nearly 30%. To get the stuff, importers began breaking the law. One was caught smuggling in 3,400 pounds—worth \$1 million—of Iranian roe disguised as legal Soviet product. The confiscated caviar is being kept on ice as evidence. It will spoil, of course, long before the case is settled, and will never reach the market.

Even under ideal conditions, caviar would be rare. The female beluga, who produces the highest-priced eggs, doesn't breed until she gets to be 20 years old. While waiting to come of

When a company guts itself in order to ward off raiders, it sometimes creates bargains for risk-taking investors.

Steals in stubs

By Matthew Schiffrin

THE KROGER CO., the big Cincinnati grocer, is one of 50 or so companies in the last three years to have undergone what are commonly called leveraged recapitalizations. A leveraged recapitalization is a way to beat off a raider by doing internally many things that a raider would have imposed externally. But it stops short of having the company go private. It thwarts the raider by paying out to stockholders a company's capital and replacing it with borrowed money.

In its leveraged recapitalization, Kroger distributed for each share of its common stock \$40 in cash and a \$17 face value 20-year 15½% debenture that begins to pay cash interest after 5 years. The nearly 81 million common shares remain outstanding but are now burdened with large amounts of debt. In the parlance of Wall Street, such common stock is called a "stub." To give management an incentive to make the now highly leveraged company work, its members usually get a piece of the action. In Kroger's case, the 6% of the stock employees already own will increase to 25%, after insiders use the distribution of cash and debentures to purchase shares.

Kroger "stubs," traded on the New York Stock Exchange on a when-issued basis, were recently quoted at 9½%.

According to Richard Haydon, executive vice president of New York's McKinley Allsopp, a firm that specializes in evaluating leveraged recapital-

izations, Kroger's stub may turn out to be a hot performer.

"Most investors don't feel comfortable with the enormous debt and the complicated accounting in these companies," he says. "But as long as there is modest revenue growth and good cash flow, stocks like these should return 30% or so a year."

What other stocks have recently be-

is leverage. "There is an inverse relationship between debt reduction and stock price appreciation," says Haydon. That is, every dollar of debt that is paid down automatically becomes a dollar of equity. The risk, of course, is that a significant rise in interest rates could slow business growth sufficiently to crimp a company's ability to cover its debt.

Nashville, Tenn.-based restaurant operator Shoney's voluntarily recapitalized its debt-free balance sheet last July. Funds from \$733 million in new debt allowed the company to pay stockholders a \$16 cash dividend and a debenture worth \$4, creating a stub that began trading at around 5. Though Shoney's earnings should fall this year, its stub is up to 8 because its cash flow from operations has remained strong.

That's why McKinley Allsopp likes Kroger. The grocer will probably report a \$100 million loss in 1988—which is part of the reason the stock is cheap—but will still have a healthy cash flow nonetheless.

USG Corp., which was recapitalized in July, should have \$1.78 of cash flow for every dollar of interest expense (an almost two-to-one coverage ratio). Even though its stub is currently trading at 6½%, little changed from July, USG may represent a greater risk than the others because its growth prospects depend largely on the housing market, the health of which is intimately tied to interest rate movements.

The table lists seven leveraged recapitalizations that have created stubs. Note that 1989 projected "cash" interest coverage figures are used. As with leveraged buyouts, these stocks are best valued in

terms of their ability to cover interest obligations, rather than by their ability to produce profits. The figures on the table do not include noncash obligations such as interest expenses accruing to zero coupon debt, because such expenses are not current drains on cash; the hope is that by the time they start accruing interest or come due, debt will have been paid down sufficiently to free money to service the zeros.

Clearly, there are a lot more "ifs" in stubs than there are in most ordinary stocks. When buying stubs, individual investors would be well advised to diversify. ■

Public LBOs

The companies listed have been recapitalized and are trading as "stub" stocks. Each has enough cash flow to cover interest expenses and most have been paying down debt.

Company	Recent stub price	1987 revs (mil)	Cash flow per dollar of interest expense*
Caesars World	25%	\$780	\$3.00
FMC Corp	34½	3,100	2.50
Holiday Corp	26%	1,700	1.35
Kroger Co†	9½	17,700	1.38
Owens-Corning Fiberglas	23½	2,900	3.20
Shoney's Inc	8	690	1.60
USG Corp	6½	2,900	1.78

*1989 estimates, McKinley Allsopp, Inc. †Trading on a when-issued basis.

come stubs?

Memphis-based hotel and casino operator Holiday Corp. In early 1987 Holiday repelled a takeover attempt by Donald Trump by instituting a \$2.6 billion recapitalization. Trump's threat moved the stock from around 60 to over 80 a share just before the recapitalization. The recap knocked the shares down to a stub value of about 11. But thanks to improved operations, asset sales and debt reduction of about \$600 million since then, the Holiday stubs now trade near 27, a gain of 144% in just over 18 months.

The reason recap shares like Holiday's tend to perform so dramatically

Many young people complain that they can't live as well as their parents did. They may well be right. We are witnessing nothing less than a massive transfer of income and wealth from the younger generations to the older.



Consuming our children?

By Subrata N. Chakravarty
with Katherine Weisman

MANY OF TODAY'S young people have an uneasy feeling that they are less well off than their parents. For the most part, they are right.

Take the case of a young man who leaves home at the age of 19, carrying a mental image of the way his father lives. If he'd left in 1962, he would have been earning 15% more in constant dollars by the time he was 30 in 1973 than his father was earning when the young man left home, says University of Maryland economist Frank Levy. A similar young man leaving home in 1973, Levy says, would have been earning 25% less 11 years later. The young man in 1962 thought he could do better than the old man, and he did. The young man leaving home in 1973 found he couldn't.

Moreover, he now carries a large additional burden. Never has higher education been more important as a means to a better job, yet never has it cost more. In 1968 tuition at Harvard cost \$6,790 a year in current dollars;

this year, \$12,310, up 81%. Now kids often emerge from college already buried under debt. Sandra Kidd, 30, pays 25% of her aftertax income servicing her \$30,000 debt. And that's just for her M.B.A. Her parents paid for her undergraduate education.

For the first time in American history, home ownership rates are dropping among the young. A report by Harvard's Joint Center for Housing Studies shows that in 1973 23.4% of those under 25 owned homes. Now 16.1% do, a drop of 30%. For those 25 to 29, 43.6% owned homes in 1973 versus 35.9% in 1987, a drop of 18%. Among those 65 to 74, however, the ownership rate grew almost 10%.

This is still a country where a poor kid can rise in the world. That part of the American dream is intact. But the other part—that every generation should live better than the preceding generation—is in serious trouble. It is getting harder for the average person to beat his or her parents' standard of living. What is not widely recognized is that this loss of upward mobility is the consequence of an enormous intergenerational transfer of wealth and income that is still going on.

"The American dream is for every generation to improve over the prior generation," says Frank Cassell, professor emeritus of Industrial Policy at Northwestern's Kellogg School. "The dream is becoming a little remote now. This is the first generation I can identify that's likely not to do as well as the previous one." Simply put, in economic terms we are consuming our children.

Yet during the presidential campaign neither major candidate was willing to address the real cause of the problem: The old are getting richer at the expense of the young.

Let's state something clearly at the outset: There are elderly people who are poor. There are elderly people made destitute by ill health. There are elderly people who are hungry. There are elderly people who are homeless. Better ways should be found to help them. But this cannot be done by continuing to transfer wealth from the younger to the older generation.

The simple fact is that the vast majority of those over 65 are quite well off. In 1959, according to the Bureau of the Census, over 35% of those over 65 had incomes below the federally



Greg Couch

defined poverty line, compared with 22.4% for the population as a whole and 26.9% for children under 18 (see chart, p. 230).

By 1987 the situation had reversed for the elderly: Only 12.2% of those over 65 had incomes below the poverty line. The national rate was 13.5%. Meanwhile, the poverty rate for children was 20%. These comparisons measure only cash incomes. Add in noncash supplements like Medicare, food stamps, housing subsidies, and the number of elderly poor falls to about 5%. "Poverty among the elderly, as measured by the poverty index and adjusted for non-money income, has virtually disappeared," says James Schulz, professor of economics at Brandeis University.

Taken in isolation, that's wonderful news: It means that our society is taking good care of its elderly. The problem is that it is doing so not only at the expense of the younger working generation but at the potential expense of today's babies as well.

The U.S. spends 27% of the federal budget on the 12% of the population

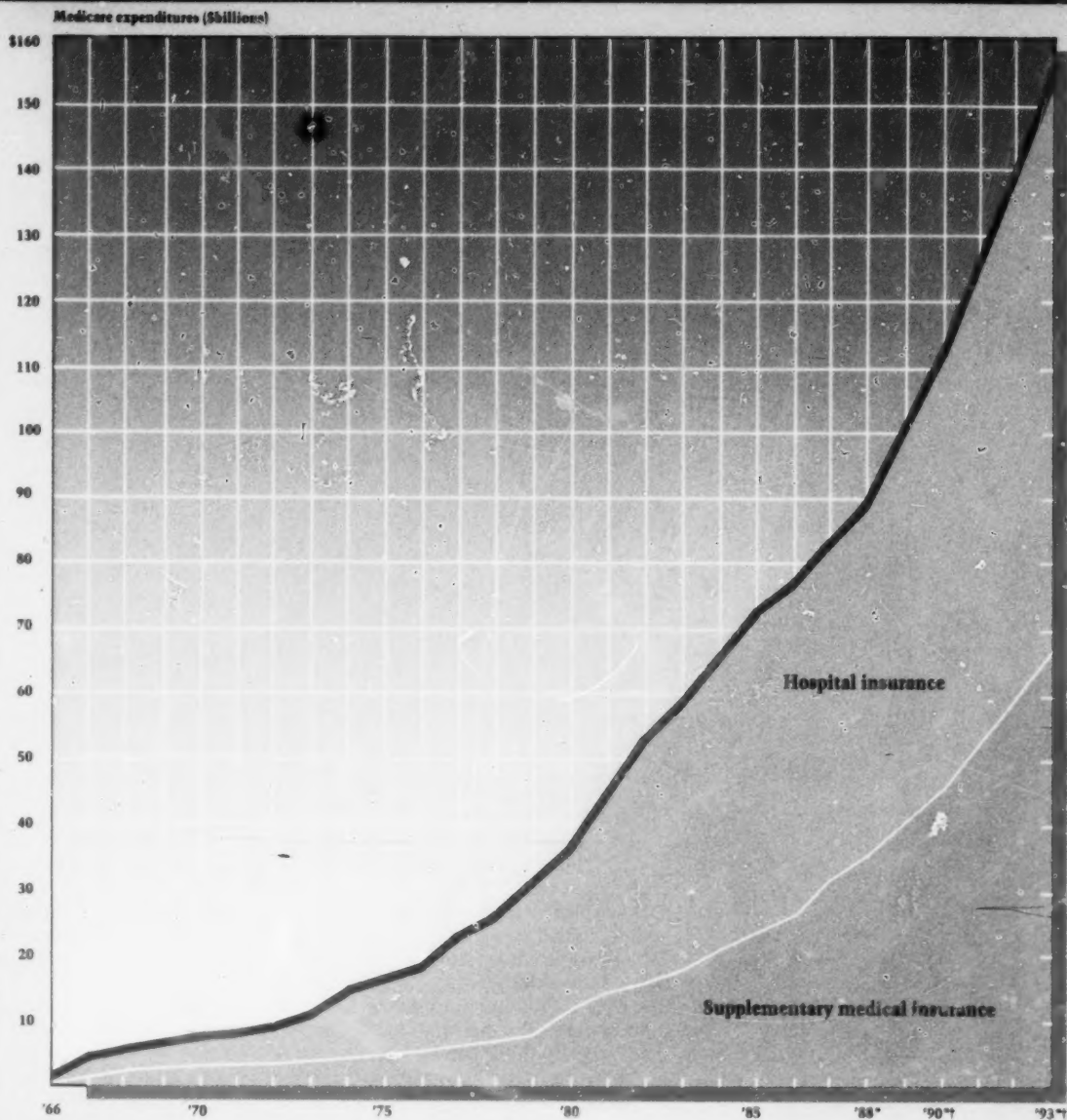
over 65 (see chart, p. 225). So effective has the old people's lobbying effort been that a national survey by the Daniel Yankelovich Group for the American Association of Retired Persons showed conclusively that the young feel the elderly are worse off than the elderly themselves do.

Income is only one measure of how dramatically the old have improved their lot compared with the young. Look at wealth and the contrast becomes even starker. In 1954 an article by MIT's Nobel laureate economist Franco Modigliani and his late student Richard Brumberg enunciated what they called the "life cycle" theory of wealth accumulation. By this theory, the young save during their working years and accumulate wealth. Then, when they reach retirement age, they start to draw down the wealth to finance consumption.

That's the way it should work, but that isn't the way it has been working.

Economists Daphne Greenwood of the University of Colorado and Edward Wolff of New York University examined average household wealth by demographic group in 1962, 1973 and 1983 (the most recent data re-

The sickening rise of Medicare payments



* Estimates. † Does not reflect coverage for catastrophic illness.

Source: Health Care Financing Administration

Medicare expenditures have climbed almost beyond belief. Hospital insurance payments have climbed more than fiftyfold. And payments for supplementary medical insurance—covering such costs as physicians and outpatient services—grew three times faster than that.

leased]. The numbers show that for the 1962 to 1973 period, the Modigliani theory held up pretty well: Older people were consuming the wealth they had built up in their working days. Thus people between 65 and 79 saw their wealth decline while those between 18 and 54 saw it rise.

Between 1973 and 1983, however, the pattern reversed itself. Instead of declining, the wealth of the 65-to-69 age group, for example, increased, in constant 1985 dollars, from \$169,366 to \$321,562. The wealth of those from

25 to 34 dropped from \$59,624 to \$49,046. Another study, by Susan Wachter of the Wharton School, with age as the only variable, showed the same results (see chart, p. 228).

Since 1983, says Wolff, the disparity can only have grown wider. Equities and real estate belong to the old out of proportion to their numbers, and both have risen greatly in price since 1983. The stock market—even after Oct. 19, 1987—is still up 73% since then. Meanwhile, payroll taxes have risen rapidly, reducing the after-

tax income of those still working.

What caused this massive redistribution of wealth? Certainly the growing political strength of the elderly helped. Witness the frightened unwillingness of politicians to suggest tampering with Social Security. But the economy, too, played a role.

In this sense, the underlying reason for the increase in wealth held by the elderly was the strong economy between 1947 and 1973. "Your wealth basically reflects the economic history of your times," explains Wolff. "If your active economic life occurred during a period of prosperity, then you will be well off."

The 1950s were the years when many of today's recently retired began their careers. Those were great years for the U.S. economy. "We had the world by the tail and we helped to rebuild it," says C. Howard Hardesty, former president of Purolator Courier. In his superbly balanced book *Dollars and Dreams*, Maryland's Frank Levy notes that productivity per worker grew 3.3% a year between 1947 and 1965, a 50% higher rate than in the first half of the century.

Those were the years when the country's standard of living went through the roof. The number of owner-occupied homes in the U.S. almost doubled, from 17 million to 33 million, says Levy. Median family income in 1984 dollars doubled from \$14,100 in 1947 to \$28,200 in 1973.

Since 1973, however, productivity growth dropped below 1% a year and has revived only slightly in recent years. Real median family incomes matched the 1973 number for the first time only last year. Per capita income has grown 20%, fueled not by increases in productivity but by the entrance into the labor force of tens of millions of women. Thus the economy grew in real terms, but real wages and family incomes did not.

It was during this period that the great transfer of wealth from the young to the old accelerated. It did so primarily in two ways: Social Security payments and real estate prices.

Social Security payments were swollen as the proportion of older people eligible for benefits increased. In the late 1940s, 13 workers supported each Social Security recipient. Today there are only 3.4, and by early next century there will be around 2 workers to support each beneficiary. In 1972 the benefits were indexed against inflation; Social Security taxes had to rise, and they're paid not by the retired but by those still working.

Because Social Security was labeled an entitlement, with people paying

into the fund and drawing from it after retirement, retirees came to believe it was just their own money they were getting back. Not so: Today's retirees, says Phillip Longman, the 32-year-old author of *Born to Pay*, will collect between 2.5 and 4 times as much as they contributed, after adjusting for the interest they would have earned had they invested it themselves. He cites a Congressional Research Service study showing that a typical 1986 retiree who had paid the maximum tax required during his working life would recover his contributions in just 21 months—by October 1988, he'd have got his money back but would then go on taking for as long as he lived. By contrast, today's 25-year-old will be lucky to get back 98 cents per \$1 paid in.

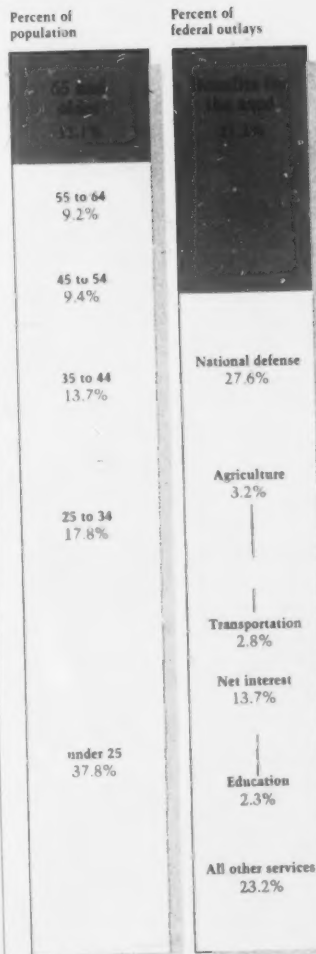
What makes matters worse is that, by any reasonable measure, a remarkable number of Social Security recipients do not need the supplement. According to David Kotz, social policy specialist at the Congressional Research Service, 4.4 million, or 18%, of the 24 million households receiving benefits in 1986 had other retirement income of \$25,000 or more. That sum was almost 16% higher than the median income of all full-time workers. Almost 1.2 million had other retirement income over \$50,000 in 1986.

Increased Social Security benefits were based on the premise that wage growth would continue indefinitely. A 1967 article in *Newsweek* by another MIT Nobel laureate, Paul Samuelson, concluded approvingly: "A growing nation is the greatest Ponzi game ever contrived." What Samuelson evidently forgot was that all Ponzi schemes eventually collapse, leaving the last investors holding the bag.

To pay for the generosity to the elderly, Social Security taxes have risen astronomically. In 1958 the maximum tax was under \$95. This year it will be almost \$3,380. Employers must kick in an equal amount, which is, of course, spread either in higher prices or in reduced profitability.

The taxes have gone up faster since 1983, when Congress decided to increase the reserves of the Social Security trust fund in order to prepare for the day when the baby boomers begin to retire. Now, instead of each year's taxes going to pay mainly that year's benefits, as before, surpluses are piling up. Senator Daniel Moynihan (D-N.Y.) recently boasted that the fund now generates a surplus of over \$109 million a day, or \$40 billion in 1988 (reducing the budget deficit by a like amount, since the two accounts are pooled for reporting purposes). By

Is this fair?



1986

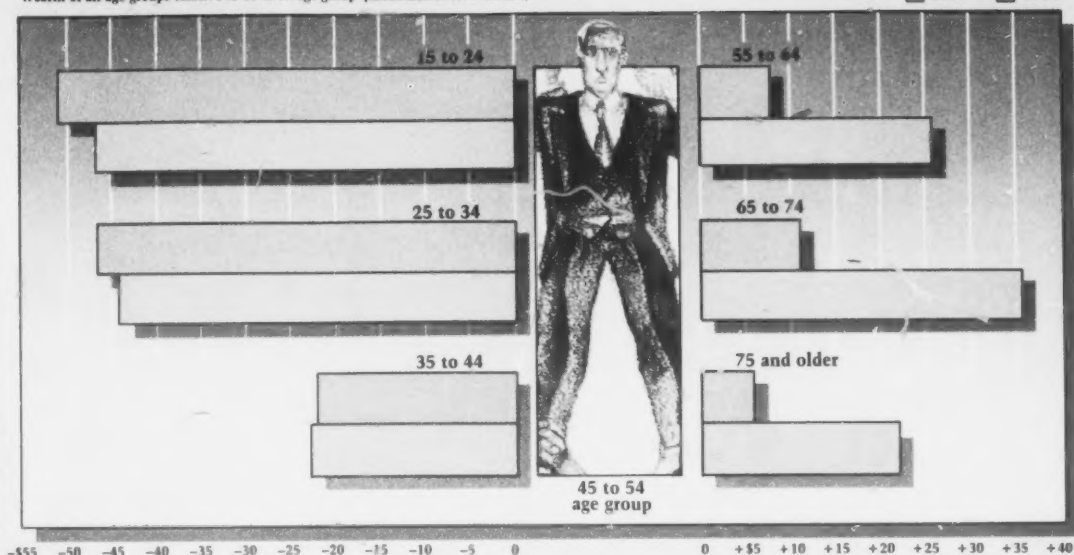
Sources: U.S. Bureau of the Census, Office of Management & Budget, *The Budget of the U.S. Government*, Annual, unpublished data and estimates

People over 65 comprise 12% of the population but receive 27% of all federal spending. Exclude national defense, interest on the national debt and spending abroad, and the elderly get some 48% of federal domestic spending.

The old are getting richer

Wealth of all age groups relative to 45 to 54 age group (thousands of 1977 dollars)

1977 1983



Source: "The Distribution of Wealth Among Families: Increasing Inequality?"—Susan Wachter, Univ. of Pennsylvania, John Weicher, American Enterprise Institute, 12/86

Take someone between the ages of 45 and 54, the peak period of earning power. Eliminate all other factors, like education, occupation, race and family status, leaving age as the only variable. Now ask, how does the wealth of the young and the old compare with those in the 45-to-54 age group? Not surprisingly, the young are a lot poorer, but between 1977 and 1983, on average, they gained a little ground. The old, in contrast, increased their wealth dramatically. Not only did the old get richer, but the relative gap between the young and the old widened significantly.

that phrase; it will become a refrain."

The refrain will strike a sour note with younger workers. "Those taxes are literally pushing young people into poverty," says author Longman. "Even someone coming from a liberal perspective begins to wonder how this crown jewel of the welfare state is really serving liberal ends when, at least much of the time, it's making poor young people poorer and rich old people richer."

Part of the increased burden of Social Security payments has gone to finance Medicare. Created by Congress in 1965 to insure the elderly against the often crippling cost of health care, the program was expected to cost \$8.8 billion in 1990. Even adjusting for inflation, the estimate was appallingly wide of the mark. Medicare expenditures this year will be around \$89 billion. By 1990 they are now projected to be over \$111 billion (see chart, p. 224).

Both Social Security and Medicare have helped the elderly to keep their wealth intact by easing the drain on their assets. "These programs are, first and foremost, asset protection programs," says Longman. "The very things that the elderly in the past saved for now get absorbed by Social Security and Medicare."

Thus have rising payroll taxes directly transferred wealth and income from the young to the old. Indirectly,

rising real estate prices have done the same. Prices erupted in the 1970s because of inflation, baby boomer demand and speculative frenzy. Today the median home costs \$120,000, according to the National Association of Home Builders, versus \$18,000 in 1963. Even adjusted for inflation, the median home's price has increased 72%. The down payment alone has become an insurmountable barrier to many of the young.

In the mid-1950s, Maryland's Levy says, a 30-year-old man could carry the payments on the median-priced house, including taxes and insurance, on 14% of his median gross income, even if his wife did not work. Today it would take 41%. Granted, the median house is a better one than the median house of 30 years ago, but not three times better. In fact, keeping the quality of a typical first home constant, Harvard's William Apgar Jr. found that carrying costs took a 46% larger share of income between 1967 and 1987 (see chart, p. 232).

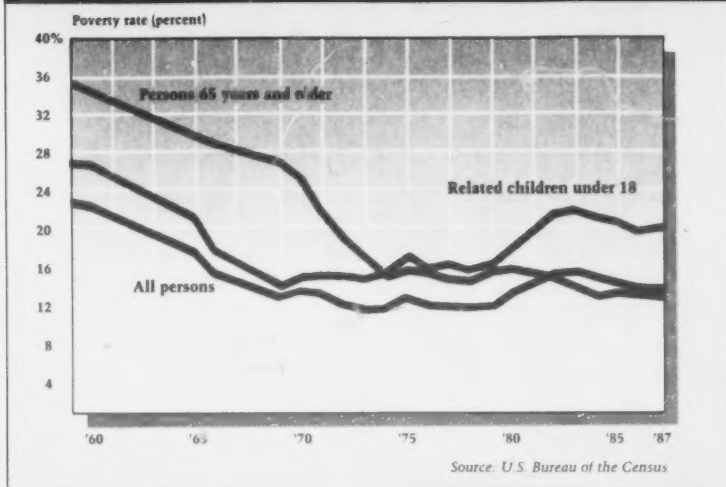
Who benefits from the rising cost of real estate? The sellers, who typically bought those houses years and even decades ago at a fraction of their current value. The burden new home buyers bear puts money directly into the pockets of the sellers.

Besides rising payroll taxes and higher housing costs, there is a third factor in the transfer of wealth to the

the year 2010, the fund is supposed to have a surplus of \$4.5 trillion.

Supposed to have. Who can believe that politicians will keep their hands off such a honeypot? Already Senator William Armstrong (R-Colo.) has introduced a bill to pay benefits to everyone over 65, whether or not they have retired. The cost, he says, is "only a fraction of the projected trust-fund surpluses." Columnist Jane Bryant Quinn commented: "Remember

The new arithmetic of poverty



elderly. In 1960 medical care consumed just 5% of the gross national product; today it consumes 12%. And older people are the biggest consumers of medical care. In 1984, the Health Care Finance Administration estimates, private expenditures on health care totaled almost \$350 billion. Of that, the 11.7% of the U.S. population that was over 65 consumed almost 34%. Since 1984, the proportion has increased even further.

Put another way, the old consume

four times as much in health care services as do those below the age of 65. But health insurance rates are actuarially based. The costs are spread over the whole population. "A few years ago I didn't have a family doctor," says a still-working executive who is 67. "Now I have four or five. From my costing the company insurance carrier almost nothing, I am now costing it thousands of dollars every year." Even when employers pay for insurance, as many do, employees pay

Thanks, but no thanks

One senior citizen who is frankly appalled by the income transfers from the young to the old is Cal Nordstrom, 69, a retired employee of Union Pacific. Nordstrom was a petroleum engineer for Union Pacific from 1948 to 1971, then switched to a Union Pacific subsidiary until 1974. Since then he's been in business for himself. As a result, he is entitled to both Social Security and a federal Railroad Retirement pension. Accordingly, Nordstrom and his wife could now be pulling down \$1,275 per month. When he worked out how much he would be getting, he refused both pensions.

By Nordstrom's figures, he and his wife had contributed a total of \$32,113 into both funds, including the employers' matching contribution. They would have recovered it within two years and five months.

The Nordstroms did still more

arithmetic. They reckon they paid \$155,281 in federal income taxes from 1948 through 1984. Indexing the benefits at 3%, they would have got all of it back in less than 12 years—about 5 years short of their life expectancy. "That means we literally would never have supported the government, and that's wrong," Nordstrom says. "What we're trying to do is point out that the Social Security and Railroad Retirement funds are too generous to our generation at the expense of the next generation." He says he and his wife have paid for their house and live comfortably on their other income of at least \$30,000. "We're not denying ourselves anything."

How have his former colleagues reacted? "They think we're stupid," says Nordstrom. "Maybe we are. But we're simply trying to make a statement."—S.N.C.

In 1950, 35.2% of people over 65 lived below the poverty line, compared with 26.9% of children under 18. By 1987 the situation had changed.

through smaller wage increases—or the public through higher prices.

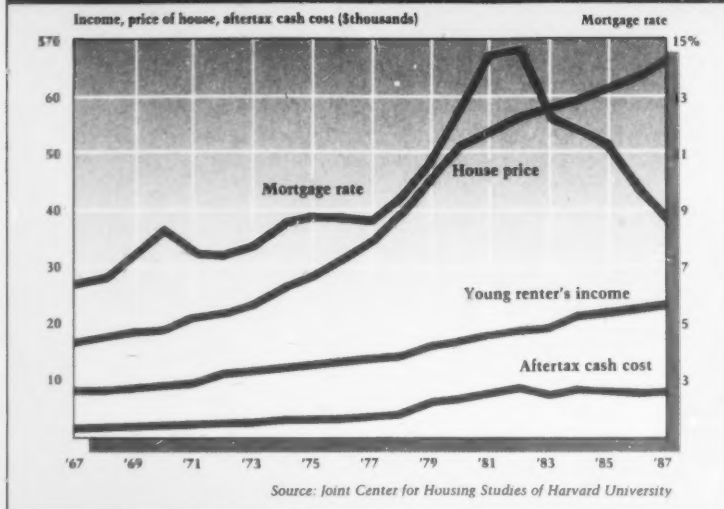
That the standard of living in the country hasn't actually fallen, given the vast increase in retired people, is due largely to the increased numbers of two-wage-earner families. In 1949, 18% of wives worked. In 1987, 56% did. The net effect has been to put mother to work to support grandpa and grandma. That allowed the family to continue living well in spite of the big increase in payroll taxes and housing costs. Couples marry later and have fewer children, and that allows them to keep per capita income rising. In the 1950s and 1960s the typical family had one earner and three children. The baby boom families have two earners and fewer than two children. But that will eventually hurt their children, because the boomers will retire when their children are younger and have less income.

One of this is to argue against the need for Social Security. Brandeis University's James Schulz points out that many of the elderly are being kept just above the poverty line by Social Security. While 44% of the elderly have financial assets greater than \$50,000, he says, 25% have assets of less than \$3,000. And many of the elderly live in fear of a long-term illness that could wipe out their assets. The recently passed catastrophic health insurance act will go a long way toward solving that problem, but it does not cover noncritical care.

The problem clearly lies in the whole concept of entitlement, which says everyone is entitled to the same benefits from Social Security whether he needs it or not. This is a luxury the nation can no longer afford.

To a degree, entitlements are transferring money from the needy young to the comfortable old. There are an enormous number of children living in poverty. Yet University of Pennsylvania demographer Samuel H. Preston calculated that, in 1983, the federal government spent ten times as much per capita on the elderly as on children. That proportion, he says, is larger today. "The United States has become the first society in history in which the poorest group in the population are the children, not the aged," Senator Moynihan has observed. "A person 6 years or younger has seven

Heavier loads for young shoulders



Every home buyer has been affected by the huge increase in home prices, but first-time buyers have been hurt worst of all. In 1967 it would have taken \$3,300 to make a 20% down payment and 22% of the median young home buyer's income to carry the aftertax cash cost of the mortgage, taxes, insurance, utilities and maintenance (adjusted for tax deductions). By 1967, despite the recent decline in mortgage rates, it cost over 32% of income to carry the same house—an increase of 46%. Worse, the down payment had climbed to \$13,400, an amount out of reach of an increasing number of young families.

times a greater likelihood of being poor than a person 65 or older."

Yet we are all dependent on the ability of our children to increase their productivity and get the economy growing faster. "The next generation of elderly depends on how well today's kids do," says Longman, who is a former research director of Americans for Generational Equity. "It's a cruel thing to say, but the money spent on the elderly is basically a debt come due. It may be a very important debt, it may be a debt we should never break, but nonetheless it is a debt. Whereas the money you spend on children is an investment, and one

that ultimately rebounds to the benefit of the elderly."

Are there ways to alleviate the problem? There are, but every politician who has tried to do so—from Barry Goldwater to David Stockman—has been shouted down.

The trouble is that most proposals for slowing the transfer of wealth to the elderly involve taking money away from the highly articulate and politically aware middle class. Representative Timothy Penny (D-Minn.) talks of leveling the cost of living adjustments in Social Security to a specific dollar amount. If a 4% COLA or an average of \$20 per month is called for, he would give \$20 to all recipients, so those with lower monthly payments get proportionately more.

Here are some progressively more radical reforms:

- Eliminate the COLA altogether and return to the pre-1972 basis. We recently were treated to the sight of both presidential candidates scurrying away from any such idea.
- Congress has already increased the age for the payment of the first full benefit to 67. Penny, 36, proposes raising it to 70 for his generation.
- Reset the actuarial tables so each recipient gets an interest-adjusted \$1 for every \$1 paid in, and no more.
- Stop paying those whose other retirement income exceeds the median worker's. That would have saved \$25 billion in 1986 alone!
- Return the system to its original social purpose—as a safety net. In other words, stop thinking of it as an entitlement and return to thinking of

it as insurance against poverty and catastrophic ill health. We pay fire insurance on our homes each year and don't feel robbed if there is no fire.

John H. Makin, director of fiscal policy studies at the American Enterprise Institute, argued in a recent article for a negative income tax that would send a government check to lift each individual out of poverty. He estimated that it would take just 20% of Social Security retirement outlays—\$187 billion last year—to lift everyone over 65 out of poverty, including those now living below the poverty line despite Social Security.

Simultaneously, we could restore full IRAs and encourage people to save for their own retirement.

We could also acknowledge Social Security for what it is—a tax, not a savings plan. That way the elderly can stop thinking of it as a debt they are owed and the young can get a tax deduction that would transfer back a small portion of the wealth they lose through their "contributions."

"What people are missing," says Longman, "is that they think their check is coming out of their own account, and it's not. It is being financed by their grandchildren and other people's grandchildren. If they knew that, they would look around and say, 'I can see people who need this money worse than I do.'"

But the very young can't vote and the elderly vote in disproportionate numbers to their share of the population. Nor do the young have a lobby to counteract the organization and the money of the American Association of Retired Persons.

We could, of course, simply resign ourselves to these expenditures as part of the cost of civilization. Yet it's not at all clear that our civilization can afford these continued, and crippling, transfers from the young to the old. At the moment the older people, through organizations like the AARP, retain the upper hand politically. But the way things are going, there's almost certain to be a backlash among the ever more burdened young.

Given the political difficulties of reducing entitlements for the elderly, it becomes doubly important that we adopt policies that encourage economic growth. Only that way can the nation continue to take good care of the growing proportion of elderly without unduly burdening their children and grandchildren. The very worst thing we could do would be to adopt "populist" solutions that would only add to the burden while simultaneously reducing the resources available for dealing with it. ■



If the fear of inflation is receding and the price of gold is weak, why are Harry Oppenheimer, Sam Zell, the Bronfmans and other astute investors nailing down big positions in gold mining companies?

The new goldbugs

By Howard Rudofsky

ONE MID-OCTOBER DAY, four gold stocks appeared among the New York Stock Exchange's leading price percentage gainers. Two of them—Battle Mountain Gold and Newmont Gold—each jumped over 5%. The moves added some \$180 million to Newmont's market value and around \$50 million to Battle Mountain's.

The stock price moves would seem inconsistent with gold's fundamentals. As inflation fears have waxed and waned, the metal's price has ebbed. It currently hovers just above \$410 an ounce, down from a peak of \$497 late last year. Despite this retreat—or perhaps because of it—several shrewd investors have begun to accumulate gold shares. Some recent examples:

- In September Toronto-based Hemlo Gold Mines acquired almost 10% of Vancouver, B.C.'s Granges Exploration, Ltd. The acquiring company is

controlled by Noranda, Inc. and the Edgar and Peter Bronfman family interests. The price—\$7.5 million—was less than one-fourth what the same stake would have cost a year ago. Granges has 680,000 ounces of gold reserves.

- Last September Minorco launched a \$4.9 billion unfriendly bid for the 70% of the shares of London-based Consolidated Gold Fields Plc. it doesn't already own. Minorco is 60% owned by companies controlled by South Africa's Harry Oppenheimer. Among ConsGold's worldwide gold holdings is its 49% investment in Newmont Mining, whose major asset is 90% ownership of gold-reserve-rich (30 million ounces) Newmont Gold.

- San Francisco's Homestake Mining recently acquired 70% of North American Metals through a tender offer for \$24 million.

- Chicago-based investor Samuel Zell is about to go on the board of Toronto-based Horsham Corp., which controls

American Barrick Resources, a gold producer with large gold reserves in Nevada. Marshall (Mickey) Cohen of Olympia & York Enterprises, which is controlled by Canada's billionaire Reichmann family, in September went on American Barrick's board. Zell is paying \$10 million for his roughly 10% interest in Horsham.

What do Harry Oppenheimer, the Bronfmans, Sam Zell and others see in gold? And now of all times? In many cases they see fundamentally sound companies whose stocks have been beaten down. Since August 1987, 20 of the largest North American gold mining stocks have lost some \$7 billion in market value. The stocks of the biggest gold producers are still selling at little more than half their levels of 15 months ago. The share prices of many smaller gold company stocks have been decimated. Galactic Resources slumped from 13 to 5½; Granges, from 12 to around 3½. Says investor Sam Zell: "Now may not be a

Most people
don't want to
make a career
out of looking
for a great
hotel.

We do.



SMALL LUXURY HOTELS
Intimate • Elegant • Exquisite

For Reservations (800) 345-3457
Telex • 495-5516

IN THE WEST

Beverly Hills
L'Ermitage
Los Angeles
Bel Age
Carmel
The Highlands Inn
San Francisco
The Huntington
The Sherman House
Napa Valley
Meadowood Resort
Portland
The River Place
Alexis
Seattle
The Alexis
Denver
The Burnside
San Antonio
The Farmhouse
Houston
The Lancaster

IN THE MIDWEST

Minneapolis
The Whimsey

IN THE EAST

New Orleans
Maison de Ville
The Poincarreman
Miami
Mayfair House
Washington, DC
The Jefferson
Baltimore
Peabody Court
New York
The Lowell
Boston
The Boston Harbor
Williamstown, MASS
The Orchard
IN EUROPE
Switzerland
Le Mirador

BEST AVAILABLE COPY

Hedge hogs



*A mountain of gold ore at Round Mountain
To offset lower prices, more production.*

George Steinmetz

How do you run a business when you never know what the selling price of your product will be when it finally comes to market? You use futures markets to hedge. Farmers routinely do this. Now several gold mining companies are aggressively trying to insulate their earnings and profit margins from gold's volatile price by hedging.

Earlier in the year, when gold was \$430 an ounce and higher, many prescient producers locked in higher prices for a year or two by selling gold forward through bullion dealers and hedging through elaborate options transactions.

To maintain its ability to develop its enormous Carlin, Nev. gold reserves, for example, American Barrick Resources sold gold forward for future delivery and bought put options to hedge 75% to 85% of its 1988, 1989 and even 1990 production. It secured an av-

erage price of \$430 an ounce, which is well above the current market price. Lac Minerals, too, has hedged 75% of its 1988 production, at an average price of \$482.

Not everyone is sold on hedging most of several years' worth of gold production. Some companies, including Echo Bay, won't sell forward more than 25% or 30% of gold production in any single year.

"We are in the business of producing and developing gold," says Echo Bay Chairman Robert Calman, "not in the hedging and speculating business." Karl Elers, president of Battle Mountain Gold, agrees. Says Elers, "What if gold prices turn up sharply a year or so from now? You're giving up part of the upside." But then Battle Mountain has less to worry about than some of its competitors: Its production costs are a low \$140 per ounce, compared with \$250 and more for some competitors.—H.R.

bad time to purchase a long-term call on gold."

Mark this: The investors aren't expecting a quick turn in the price of gold. Donaldson, Lufkin & Jenrette's John Tumazos, who shrewdly told his clients to get out of gold shares late last year, thinks gold's price will average only \$375 an ounce in 1989. At 25 times anticipated earnings, he warns,

most gold stocks are still overvalued. The recent investors are aware of this possibility but aren't overly concerned. They are taking a long-term view. They seem to feel that prices of gold stocks have taken a worse beating than the price of gold itself.

Pru-Bache Capital Funding's mining analyst Nicolas Toufexis likens the situation of gold companies today

Is a bottom at hand?

These and other publicly traded gold mining companies have been buying sizable gold share stakes. What to have shed \$7 billion in market value since last year. look for? Companies with low mining costs, rising gold production and strong balance sheets. Recently, however, some shrewd long-term investors

Company	Gold production thousands of ounces		1988E production hedged	Weighted average hedge price	Current cash production cost	Total cash (\$mil)	Long- term debt ⁴ (\$mil)	Market value (\$mil)	Price range 8/1/87 - 10/14/88		
	1988E	1989E							high	low	recent
Amax Gold ¹	236	350	85%	\$495/oz	\$129/oz	\$28	\$0	\$1,020	19%	9%	17
American Barrick	325	425	90	430	250	138	214	1,035	30%	12%	17%
Battle Mountain	305	340	0	—	140	80	0	980	27%	12%	15
Echo Bay Mines	550	700	21	436	241	32	165	1,620	30%	15%	16%
FMC Gold ²	302	305	0	—	122	17	0	745	17%	8%	11%
Freeport McMoRan Gold	250	280	0	—	187	80	0	570	19½	10½	13%
Galactic Resources	70	120	27	429	282	7	43	155	13%	4%	5%
Granges Exploration	75	100	60	490	300	13	26	80	11%	2%	3 ⁵ / ₁₆
Homestake Mining	760	900	0	—	275	243	70	1,350	24	12½	14%
Lac Minerals	318	330	75	482	265	224	190	890	15%	6%	9%
Newmont Gold ³	830	1,280	0	—	211	0.5 ⁵	0 ⁵	3,670	48%	27%	35
Pegasus Gold	270	300	83	425	220	51	37	300	26%	10%	12%
Placer Dome	800	1,060	35	490	240	750	111	3,000	21%	10%	13

¹Amax Gold is 87% owned by Amax, Inc. ²FMC Gold is 89% owned by FMC Corp. ³Newmont Gold is 90% owned by Newmont Mining. ⁴A substantial portion of the debt is secured by future gold production. ⁵Parent Newmont Mining has sizable debt and cash.

to that of the oil companies a few years ago. Toufexis explains that after oil—and oil stock—prices collapsed, it became cheaper to buy an oil company's existing reserves on Wall Street than to explore for new reserves. Thus the wave of acquisitions that began in the early 1980s and continued through last month's auction of Tenneco's oil and gas reserves for an unexpectedly large \$7 billion plus.

The same kind of consolidation is starting to happen to gold mining companies. Securities analysts, not geologists, will do the prospecting. This kind of prospecting will focus on smaller gold companies because these generally sell at far lower multiples than the big ones. Today, says Toufexis, the bigger gold miners command cash flow multiples that average about 50% to 70% higher than the smaller and privately held producers.

In other words, the stock market values the big producer's gold production at a significant premium to that of a smaller or privately held gold producer. This makes sense. Small producers today are shut out of the equity market, and they can't sell low-cost, off-balance-sheet, gold bullion-backed debt, as can the majors.

For example, earlier in the year Echo Bay Mines, a large North American gold producer, raised \$70 million in equity in a share issue. Then it

bought about 25% of the shares of the Canada-based Muscocho group stock for \$41 million in stock and convertible debt. Muscocho's gold production will be only 40,000 ounces in 1988 but will jump to 100,000 ounces next year. As production rises, Echo Bay's capitalization price per ounce of Muscocho production for 1989 will be only \$1,000, compared with Echo Bay's own market capitalization value of \$2,300 per ounce of production.

Even though gold prices are down, cash flow is still strong as mining companies boost production. Listen to Jean-Charles Potvin, mining analyst at Burns-Fry Ltd., a Toronto-based brokerage: "If gold prices were to average only \$375 an ounce next year, the 50 North American gold mining companies we follow would still have cash flow of around \$1.4 billion." With substantially higher production, he says, even at that unlikely price, it still would be a slight increase from the same companies' \$1.3 billion in cash flow in 1987, when gold averaged \$435 an ounce.

Potvin adds that many gold companies are loaded with cash. Placer Dome has over \$700 million in cash; its market value is \$2.6 billion. American Barrick has about \$140 million, and Homestake Mining has some \$240 million in cash. Battle Mountain has around \$80 million in cash and no

debt. Several big producers, moreover, have used the futures markets to lock in gold prices higher than today's (see box, p. 240).

Goldman, Sachs analyst Amy P. Gassman believes a consolidation among gold producers is under way. Strong, well-financed mining companies will gradually take over smaller, underfinanced gold companies. According to one recent report, only the largest half-dozen or so producers in Australia, Canada and the U.S. can be confident of fending off takeover bids over the next few years.

In the consolidation process, the big companies will have to pay a premium over current market prices to buy gold companies. Minorco offered a 20% premium for Consolidated Gold Fields.

Not surprisingly, Minorco's hostile bid has met furious opposition from Consolidated. At gold mining companies around the world, strategies for defense and attack are being drawn. With the big money on the prowl for low-cost reserves, nobody feels safe these days.

But why own gold, with inflation seemingly under control? Look at it this way: Even with 4% to 5% inflation, compounding annually, paper money depreciates fairly fast. So when you can buy gold shares cheap, why not buy them? ■

The 200 Best Small Companies in America

If high-quality growth stocks like FORBES' best 200 small companies in America regain favor on Wall Street, it will be especially important to remember what can go wrong even in the best small companies. Below, five case studies.

Small Isn't Always Beautiful

By Steve Kichen, Evan Sturza
and Graham Button

DESPITE A healthy recovery from last year's plunge, the stocks of many of the country's best growth companies remain well down from their highs. In last year's market blowoff, investors learned the true terror of being locked into small companies when someone yells, "Margin call!" The best of the best small companies—the Forbes honor roll shown on page 284—were recently trading at a median 14.2 times earnings. This is well down from 1986, when the median price/earnings ratio for the Honor Roll companies was 18.2.

Will this generally hostile climate change? Investment sage John Templeton thinks so. Good contrarian that he is, he thinks the bear market in emerging growth companies stock is about to end (see "Streetwalker," p. 370). Investors who agree with him will find good pickings in our tenth annual ranking of the best 200 small

companies in America.

When using this (or any) list of attractive growth companies, it is important to remember how unbeautiful small firms can very quickly turn. The 200 companies on our list, as defined by William O'Neil & Co., publisher of *Investor's Daily*, had a minimum five-year average return on equity of 12% and a five-year earnings growth rate of at least 9%. For the latest 12 months, return on equity had to be no less than 9.4% and earnings growth 6% or better. Long-term debt had to be less than equity.

Alas! Past performance does not guarantee future anything. Below we present five companies whose performance earned them a place on prior lists of the best 200 small companies—and which subsequently dropped sharply in market value, and off the list. Each angel fell for different reasons. But in each case the reasons provide lessons for investors in small companies, as well as for their owner-managers.

Clothestime, Inc.

The trouble with young women

In the early 1970s Michael DeAngelo, younger brother Raymond and their friend John Ortega II were selling clothes at swap meets (southern California-style flea markets). The trio came up with a new concept for selling to young women: They purchased large quantities of brand-name closeouts on junior apparel, mostly from manufacturers, at below wholesale prices, and sold the goods at cheap prices to their young consumers.

By 1987 the partners had built their Anaheim-based Clothestime, Inc. into a \$179 million (sales) specialty retailer with over 330 stores in 18 states. From 1982 to 1986, earnings compounded at an average annual rate of over 82%. The company went public in 1983 and by 1987 had a market value of around \$340 million—up nineteenfold from the public offering. Mike and Ray DeAngelo were worth \$86.2 million.

And then it all collapsed. In the

The 200 Best Small Companies in America

summer of 1987, the women's apparel business stalled, particularly in the fickle junior apparel segment. Most retailers, including the Limited and the Gap, were hurt. Clothestime, with its whimsical junior market, was hurt even worse and was forced to slash markups in an effort to maintain its value image.

Before the downturn, Clothestime was doing a highly profitable side business with private-label merchandise. Women would come in for a cut-

price brand name outfit and leave with a high-margin item with one of Clothestime's labels. But when business slumped, the customers stuck to brand names. The private-label division became an albatross.

Net income dropped 45% in fiscal 1987 (ended Jan. 30, 1988), to \$6.5 million; for the six months ended July 30, 1988, the company posted a net loss of \$788,000, versus a profit of almost \$7.8 million in the prior year's first half. Current market value: \$78.5

million.

The DeAngelo brothers, who own about 17% of the company, are fighting back. Recently Clothestime reduced its private-label merchandise to 10% of its mix, down from 40% about 1½ years ago. Citing recent improvements in the business climate and tighter internal controls, President and Chief Operating Officer Norman Abramson says Clothestime hopes to open about 50 new outlets in 1989, bringing the total to 388. The company also launched an advertising blitz to promote its new emphasis on more sophisticated, career-oriented junior apparel.

"The ladies' apparel business is a high-risk, high-reward business," Abramson notes. "When you're right you're right, when you're not you're not. It's as simple as that." Something to remember whenever an upstart specialty retailer comes up as the topic of conversation.

Nuclear Support Services

Digestion problems

Nuclear Support Services Inc., of Campbelltown, Pa., was featured three times on our rankings of the country's 200 best small companies. The company's personnel assist in



The 200 Best Small Companies in America

nuclear plant maintenance activities, such as measuring radiation levels and servicing valves and pumps. NSS provides these services only to the electric utilities' nuclear facilities, and so is not caught up in the current allegations of safety hazards at government nuclear weapons plants.

From 1982 to 1987, NSS was able to generate a five-year earnings growth rate of 21.5%, despite competition from giants like Westinghouse and Combustion Engineering. By 1987 its sales had grown to \$40 million, its market value also to \$40 million. But given the country's antinuke bias, and after winning maintenance contracts from more than half of the country's operating nuclear plants, where could NSS look for growth? More important, how should it look?

This is a classic dilemma for many successful small companies. NSS President Laurence Strassner responded by deciding to diversify. In April of last year Strassner purchased Henze, a subsidiary of ITT, which is one of the leaders in servicing valves and pumps for the power industry. Soon after, Strassner bought two other companies for a grand total of about \$15.8 million in cash and stock.

In making three significant acquisitions within a year, Strassner left himself little cushion against the things that could—and did—go wrong. Notable among these were controlling costs of the combined

businesses, and lower than expected revenues from one of the acquisitions.

Debt financing, too, looks like a mistake. By the time the acquisition dust settled, NSS' long-term debt had jumped to \$13.4 million and its debt-to-equity ratio from 65% to 165%. As interest expense rose, earnings from continuing operations dived: from \$2.4 million for the 12 months ending in June of 1987, to a loss of \$800,000 for the 12 months ending this June. This year's losses could exceed \$1.6 million. The market now values NSS at less than \$10 million. Says Strassner hopefully: "The corner has been turned and improvements in our operations will be seen in the next quarterly report." But the indigestion problems won't go away soon.

QMS, Inc.

Printer's (red) ink

A year ago, management at Mobile, Ala.'s QMS, Inc. was boasting to shareholders that the computer printer manufacturer would, in the next year or so, garner more than \$50 million in additional revenues from a new sales and marketing agreement with Hewlett-Packard.

But QMS made a not unusual small-company mistake. It became obsessed with sales growth and forgot about product support and inventory controls. "They thought that because you have a better mousetrap, the world comes to your door," says David Garcia, an analyst who knows QMS well. "They did have a better mousetrap, but a lack of management control frittered away that opportunity."

The anticipated business with H-P centered on QMS' JetScript. This embodied a software product called PostScript, which QMS licensed from a company named Adobe Systems. But H-P's customers began asking for PostScript by name, and H-P decided to deal directly with Adobe when it designed its new-generation printers. QMS was stuck with dwindling orders for the first-generation printers.

Another mistake: QMS produced a high-quality, moderately priced printer called KISS, with even more features than H-P's popular LaserJet printer. But QMS neglected to offer retail dealers an attractive markup on KISS, and overordered components to build the printer. By July of 1988, inventory was over \$71 million, almost double the level less than two years earlier. QMS financed much of this ballooning inventory by taking on

over \$30 million of debt. Russell Crabs, an analyst with SoundView Financial Group, thinks QMS will lose \$3 million to \$5 million in fiscal 1988 (ended Sept. 30). This, against profits of \$8.7 million in 1987. The stock plunged from 26¼ in July 1987 to a recent 7. Management has probably learned several good lessons. Unfortunately, competition in the printer business is so rough that there aren't many second chances.

Zenith Labs

Quality time

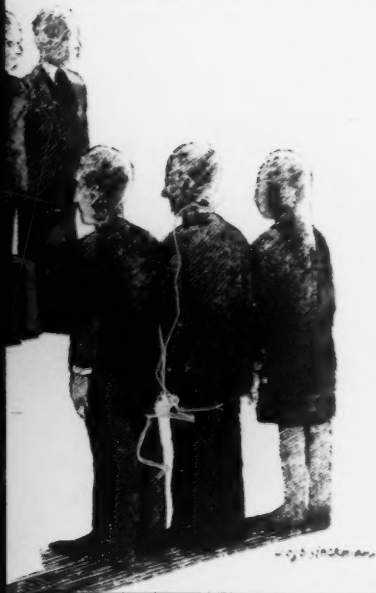
Zenith Labs, of Ramsey, N.J., had been selling generic drugs for over 30 years when, in 1985, it had its best year. Earnings surged to \$16 million on revenues of \$81 million. This impressive performance was the result of seizing an opportunity created in 1984, when the Food & Drug Administration relaxed rules for the approval of generic drugs. This meant that many popular drugs, such as Valium and Motrin, were about to lose their patent protection. Zenith expanded to capitalize on the opportunity.

For the first two years the expansion paid off. But in its pursuit of market share, management began to ignore quality control and deviated from good manufacturing practices. Citing faulty production techniques and unauthorized alterations to drug formulations, the FDA in the summer of 1986 ordered Zenith to recall 33 of its products. Sales subsequently collapsed to just \$50 million as black ink turned red.

As if the situation weren't bad enough, Zenith did little to cure a festering credibility problem. The company had a history of overly optimistic promises about upcoming product approvals. Now, Zenith kept telling Wall Street and shareholders that the FDA problems weren't all that serious. In fact, the agency took up to two years before allowing Zenith to remarket some products.

Stuck with excess capacity, and with its product line slashed by the FDA, Zenith had little choice but to lower prices on its remaining drugs to keep existing customers. Finances deteriorated so badly that last May Zenith defaulted on debt payments and was forced into Chapter 11. Four top officers, including Chief Executive James Leonard, resigned.

Zenith's stock now trades at 2½, down from its 1986 peak of 18¼. The board has brought in Larry A. Weber,



The 200 Best Small Companies in America

who turned around Rexall Drugs, to try to clean up the Zenith mess. Weber may have just been dealt a lucky hand: In September the FDA approved Zenith's application to produce generically a popular antihypertension drug. If Weber has learned from his predecessors' mistakes, Zenith may yet have a happy ending.

ActMedia

Give our regards to Wall Street

Sometimes companies make a mistake no greater than that of disappointing Wall Street. Such a company is ActMedia Inc. Its business is going through some growing pains but is fundamentally sound. Yet Wall Street, once happy to pay four times revenues for the stock, now won't pay over one time (at a recent 9¢ share).

The Westhampton Beach, N.Y.-based company is the outgrowth of Chairman Bruce Failing Sr.'s clever idea of placing advertisements—mini billboards, in effect—on supermarket shopping carts, renting space on the carts from the food chains. Heavyweight advertisers like Philip Morris,

Kellogg and Procter & Gamble were soon affixing their messages to ActMedia's carts. ActMedia's revenues shot from nearly nothing in 1982 to \$94 million in 1987, when the company earned \$6.6 million (55 cents a share). The stock roared to 28—over 50 times earnings.

As the company approached the \$100 million sales mark, Failing figured he had to broaden ActMedia's base. Last January he acquired Shelfvision, which puts ads on supermarket shelves and had been making life difficult for ActMedia. Failing paid around \$19 million in cash and stock. The two were a natural fit, long term. But Wall Street lives in the short term, and the stock weakened.

About the same time, ActMedia sensibly decided to get more out of its 13,700-person field service organization. It did this by expanding such related services as in-store couponing, shelf advertising and promotional programs. And it ventured more heavily into drugstores with its shopping cart and shelf advertising. Again the expansion made long-term sense,

but at a short-term price: During the first three quarters of this year, ActMedia's selling, general and administrative expenses climbed 49%, while revenues were caught in an overall advertising slowdown. "We were planning for about \$6 million more in revenues this year," says Failing, "all of which would have gone to the bottom line." For the first nine months the company reported a loss of \$2.3 million.

Not surprisingly, when ActMedia's stock dropped to about half its 1987 high of 28, Failing and other managers attempted to take the company private, at \$16 a share. But the buyout collapsed when the bankers backed out at the last minute. In private hands or public, ActMedia looks like a rebounder. "After four years of averaging 40% growth, we had to take these steps to get ready for the next phase of ActMedia," says Failing, determined to prove Wall Street wrong. "Forget 1988. We will be back next year." Perhaps so, but stockholders have had quite a roller-coaster ride this year. ■

The small company honor roll

These 17 honor roll companies have graced FORBES' 200 best small companies rankings for at least four out of the last five years, and have posted some of the 1988 group's better five-year and latest 12-month returns on

equity. And as investments? A portfolio made by investing \$1,000 in each of these 17 stocks in October 1983 would now be worth \$66,244. This works out to an average annual return of 33.3%.

Company	Years on 200 best list	Return on equity 5-year average	Return on equity latest 12 months	—5-year growth— sales earnings		Recent price	Value of \$1,000 invested 10/24/83	Chief executive
American List	4	27.7%	24.2%	24%	19%	10%	\$3,355	Martin Lerner
Arnold Industries	5	20.7	24.1	14	25	30%	3,980	Edward H Arnold
CPI	4	21.9	22.0	18	21	21%	1,723	Alyn V Essman
Dress Barn	4	31.9	39.7	38	57	13%	5,978	Elliot S Jaffe
Dreyfus	5	21.7	18.1	21	19	26½	3,330	Howard Stein
Eaton Vance	5	24.2	27.8	29	28	20%	1,952	Landon T Clay
Franklin Resources	5	58.9	60.4	70	104	21½	12,190	Charles B Johnson
John H Harland	5	22.7	24.4	11	19	21	2,211	J William Robinson
Juno Lighting	4	27.3	30.8	21	32	19%	5,643	Robert S Fremont
Lee Enterprises	4	23.3	26.5	8	13	27%	2,330	Lloyd G Schermer
Mylan Laboratories	4	34.7	28.8	29	50	9%	3,446	Roy McKnight
Napco Security Systems	5	27.7	29.7	27	35	13	4,035	Richard Soloway
Neutrogena	5	34.6	55.3	32	51	29	9,705	Lloyd E Cotsen
New England Business Services	4	24.1	26.9	13	16	21½	1,607	Richard H Rhoads
Pioneer Group	5	30.2	29.2	28	20	17½	1,071	John F Cogan Jr
Technalysis	4	21.1	21.9	16	10	9%	1,009	Victor A Rocchio
Versa Technologies	5	26.7	28.9	12	26	15%	2,680	James E Mohrhauser
Total							\$66,244	

Source: William O'Neil & Co., Forb's

The 200 Best Small Companies in America

—Rank— this year last year		Company/business	Return on equity		5-year EPS growth rate	Latest 12 mos		Debt/ equity	Recent stock price	Market value (mil)	Latest 12 mos		Est 1988 EPS	Book value/ share
			5-year average	latest 12 months		sales (mil)	profits (mil)				EPS	P/E		
1	■	Melamine Chemicals specialty chemicals	262.7%	100.0*	39.0%	\$33.0	\$6.77	0%	12	\$65.4	\$1.28	9.4	\$1.35	\$0.12
2	8	King World Productions distr & synd of tv progs	62.0	100.0*	131.0	280.8	59.76	51	24 1/8	632.3	2.17	11.5	2.67	1.54
3	■	Quiksilver casual sportswear	61.3	29.1%	97.0	44.6	3.07	0	6 1/8	38.3	0.50	12.8	0.78	1.76
4	3	Franklin Resources fund management	58.9	60.4	104.0	201.0	63.20	3	21 1/8	560.1	2.37	8.9	2.86	3.98
5	■	Respironics respiratory medical products	55.5	52.3	55.0	14.0	1.32	5	13 1/2	21.3	0.95	14.2	NA	1.68
6	1	Value Line financial publishing, investments	54.3	40.5	16.0	73.1	20.01	0	21 1/4	212.5	2.01	10.6	NA	4.97
7	5	PCS prescription claims processing svcs	52.9	49.1	45.0	82.1	12.43	0	14 1/2	210.4	0.86	16.9	1.24	1.75
8	■	VM Software computer software	50.9	19.3	35.0	36.1	4.43	0	14%	87.2	0.70	20.2	1.18	3.72
9	6	Intl Dairy Queen fast-food restaurants	48.2	43.8	29.0	234.6	19.06	85	32 1/4	315.8	1.97	16.6	2.23	4.48
10	4	Canonie Envir Svcs hazardous waste mgmt svcs	45.1	26.4	90.0	47.2	6.66	0	25 1/4	144.7	1.16	22.2	1.68	4.29



Of this year's 200 best small companies, 104 made our list last year. Of those that did not return, 15 were acquired, at least 6 outgrew our \$321 million sales constraint, and the rest couldn't maintain their exceptional growth rates.

11	■	GoodMark Foods processed meats	43.3	19.5	19.0	121.5	4.16	59	12 1/2	54.9	0.94	13.3	1.25	4.81
12	■	Shorewood Packaging paperboard packaging	41.1	41.1	29.0	105.5	12.80	29	15 1/4	205.6	0.99	15.9	1.35	2.39
13	■	HWC Distribution distributes wire, cable prods	40.6	27.0	58.0	109.5	6.25	46	13	59.6	1.20	10.8	NA	4.78
14	10	Morino Assocs computer software	38.4	35.0	52.0	44.7	8.52	0	14 1/2	145.3	0.82	17.7	1.05	2.43
15	■	Sigma Designs microcomputer graphic peripherals	37.6	45.0	111.0	58.7	7.14	0	13	60.5	1.38	9.4	2.26	2.89
16	18	T Rowe Price Assocs mutual fund invest advisory svcs	34.9	37.9	35.0	136.0	21.91	3	32	229.9	2.96	10.8	3.12	8.05
17	■	Mylan Labs generic drugs	34.7	28.8	50.0	97.5	25.84	7	9 1/8	329.8	0.72	12.7	0.97	2.48
18	■	WD-40 lubricants	34.7	44.3	10.0	77.6	14.51	0	33	249.0	1.93	17.1	2.16	4.36
19	23	Neutrogena cosmetics	34.6	55.3	51.0	168.2	21.04	0	29	598.5	0.97	29.9	1.36	1.83
20	13	Trans World Music music, video stores	34.3	30.2	77.0	219.1	11.28	40	25 1/2	229.8	1.25	20.4	2.07	4.15

■ Not on last year's list *Figure greater than 100% NA Not available

Stock prices as of Oct. 17

Sources: William O'Neil & Co., Institutional Brokers Estimate System (IBES), FORTUNE

The 200 Best Small Companies in America

Rank		Company/business	Return on equity		5-year EPS growth rate	Latest 12 mos		Debt/ equity	Recent stock price	Market value (mil)	Latest 12 mos		Est 1988 EPS	Book value/ share
this year	last year		5-year average	12 months		sales (mil)	profits (mil)				EPS	P/E		
21	19	Group 1 Software computer software	32.5%	46.6%	66.0%	\$14.0	\$2.21	1%	12	\$39.7	\$0.66	18.2	NA	\$1.43
22	■	Wellman plastics recycling	32.3	27.0	31.0	290.1	31.30	40	39 1/4	562.9	2.17	18.1	\$3.00	8.14
23	17	Heartland Express trucking	32.0	32.5	21.0	30.8	4.26	0	10	50.0	0.85	11.8	1.05	2.62
24	32	Dress Barn women's apparel stores	31.9	39.7	57.0	204.9	15.80	0	13 1/4	306.2	0.71	19.4	0.89	1.79
25	■	Reeds Jewelers retail jewelry stores	31.6	21.8	41.0	49.9	2.00	35	7 1/4	25.1	0.58	12.5	1.00	2.64
26	■	Iverson Technology modifies computer equip for govt & others	30.6	24.4	82.0	58.2	4.31	95	10 1/2	41.8	1.11	9.8	1.56	4.68
27	■	Brandon Sys computer services	30.4	21.8	78.0	27.2	2.13	0	12%	29.2	0.93	13.7	1.13	4.26
28	28	Pioneer Group mutual fund management	30.2	29.2	20.0	56.4	13.50	0	17 1/2	106.8	2.21	7.9	2.30	7.58
29	■	Calgon Carbon activated carbon	29.4	27.2	25.0	193.7	24.47	25	29	574.7	1.23	23.6	1.74	4.54
30	■	Penn Treaty American supplemental health insurance	28.3	21.7	36.0	16.4	2.79	1	7 1/2	18.9	1.16	6.5	1.55	5.10
31	27	Inmac mail order computer prods	28.0	28.8	36.0	222.8	9.71	0	13 1/4	129.2	1.02	13.5	1.21	3.69
32	■	Jack Henry & Assocs banking software and svcs	27.9	11.2	9.0	18.1	1.06	18	3 1/4	13.1	0.29	12.5	0.50	2.62
33	30	American List student mailing lists	27.7	24.2	19.0	7.4	1.88	3	10 1/4	29.5	0.68	15.6	NA	2.80
34	36	Napco Security Sys protective alarm equip	27.7	29.7	35.0	35.2	4.16	26	13	56.6	0.95	13.7	1.15	3.22
35	37	Bush Inds ready-to-assemble furniture	27.6	27.1	38.0	92.1	4.98	54	9%	43.4	1.11	8.7	1.63	4.07
36	■	Expeditors Intl freight forwarding	27.6	23.6	37.0	146.7	6.40	9	17	97.2	1.12	15.2	1.41	4.75
37	35	Juno Lighting lighting fixtures	27.3	30.8	32.0	58.3	12.03	13	19 1/4	180.9	1.32	15.0	1.60	4.26
38	■	Fastenal fasteners, retails bldg materials	27.1	23.2	45.0	25.2	2.33	8	19 1/2	92.5	0.51	38.2	0.73	2.12
39	52	Versa Technologies silicone rubber and fluid power prods	26.7	28.9	26.0	45.9	5.89	6	15%	76.0	1.23	12.7	1.51	4.20
40	■	Sound Advice consumer electronics stores	26.5	28.6	55.0	54.8	2.25	1	6 1/4	19.0	0.74	8.4	0.85	2.60
41	■	XL/Datacomp sells and leases IBM computers	26.4	29.4	25.0	206.8	9.71	0	24	163.5	1.36	17.6	1.96	4.54
42	■	Sound Warehouse music, video stores	25.5	12.6	29.0	184.8	4.53	0	15%	78.0	0.87	17.4	1.25	6.95
43	■	Informix computer software	25.4	14.2	88.0	65.3	6.34	0	8%	100.0	0.67	12.7	1.06	3.86
44	31	Ashton-Tate computer software	25.2	25.9	61.0	287.8	46.42	3	24 1/4	620.3	1.81	13.7	2.44	7.13
45	■	Aloette Cosmetics cosmetics	25.0	17.3	10.0	17.6	2.41	5	7	20.6	0.82	8.5	NA	4.74

■ Not on last year's list. NA: Not available. * Stock prices as of Oct. 17. Sources: William O'Neil & Co., Institutional Brokers Estimate System (IBES), Forbes.

The 200 Best Small Companies in America

—Rank— this year last year		Company/business	Return on equity		5-year EPS growth rate	Latest 12 mos		Debt/ equity	Recent stock price	Market value (mil)	Latest 12 mos		Est 1988 EPS	Book value/ share
			5-year average	latest 12 months		sales (mil)	profits (mil)				EPS	P/E		
46	50	Boston Acoustics audio speaker systems	24.8%	25.2%	30.0%	\$19.4	\$2.21	0%	10 ⁷ / ₈	\$21.7	\$1.10	9.9	\$1.30	\$4.44
47	■	BHA Group aftermarket air pollution cntrl equip	24.7	24.6	26.0	44.3	2.42	28	14	46.4	0.72	19.4	1.07	2.98
48	■	Agency Rent-A-Car auto leasing	24.6	24.3	27.0	199.2	23.56	92	18 ¹ / ₂	427.2	1.02	18.1	1.34	4.39
49	■	Video Display cathode ray tubes	24.6	25.9	40.0	31.0	2.48	83	8 ¹ / ₂	33.3	0.61	13.5	NA	2.37
50	70	Armor All Products auto cleaners and protectants	24.3	30.2	22.0	132.4	23.44	0	22 ¹ / ₂	470.4	1.13	19.9	1.55	3.72
51	66	Eaton Vance mutual fund adviser & distributor	24.2	27.8	28.0	48.2	11.62	18	20 ¹ / ₂	85.7	2.87	7.1	NA	11.38
52	51	N England Business Svcs business forms	24.1	26.9	16.0	217.5	22.44	8	21 ¹ / ₂	372.4	1.30	16.5	1.50	4.82
53	90	Republic American casualty insurance	23.7	31.5	37.0	259.3	24.94	58	14%	274.3	1.32	11.3	1.48	4.29
54	60	MacNeal-Schwendler computer-aided engineering software	23.6	27.1	33.0	38.1	9.32	6	12	146.7	0.76	15.8	1.00	2.82
55	■	Tyco Toys toys	23.6	26.1	65.0	217.9	9.40	47	13%	79.1	1.85	7.5	2.44	6.98
 Big performance in small packages: The median 5 year annual return on equity of these 200 companies is a handsome 18%; the median 12-month return is 22.8%.														
56	■	Lee Enterprises newspapers, broadcasting	23.3	26.5	13.0	248.7	40.25	50	27%	676.9	1.60	17.1	1.80	6.19
57	■	Uni-Marts convenience stores	23.2	13.1	40.0	134.0	2.61	36	6%	42.9	0.41	16.8	0.60	3.19
58	■	Northwest Teleprodtns videotape and film production	23.0	28.5	27.0	12.4	1.43	26	8	13.1	0.87	9.2	NA	3.06
59	■	LDI computer sales and leasing	22.9	15.7	19.0	165.1	5.38	68	13 ¹ / ₂	64.0	1.17	11.8	1.65	7.32
60	62	John H Harland check printing	22.7	24.4	19.0	296.1	46.12	0	21	723.9	1.33	15.8	1.63	5.49
61	■	Ohio Art "Etch A Sketch" art toys	22.7	38.7	248.0	62.6	4.07	1	46 ¹ / ₂	23.9	6.47	7.1	NA	20.36
62	9	ABI Am Businessphones telecommunications equip	22.3	20.9	24.0	30.1	1.53	36	10%	17.9	0.92	11.4	NA	4.36
63	■	Innovex precision electromech comp. photoin equip	22.2	11.6	37.0	25.2	1.52	1	4 ¹ / ₂	20.3	0.33	13.1	0.55	3.05
64	■	Rollins Environmtal Svcs industrial waste mgmt	22.1	28.8	66.0	202.6	37.10	3	14 ¹ / ₂	835.6	0.62	22.8	1.00	2.18
65	56	CPI portrait studios, photofinishing	21.9	22.0	21.0	300.2	25.68	0	21 ¹ / ₂	363.0	1.53	14.2	2.01	6.99
■ Not on last year's list. NA: Not available. Stock prices as of Oct. 17. Sources: William O'Neil & Co., Institutional Brokers Estimate System (IBES), Fowles.														

The 200 Best Small Companies in America

Rank this year	Rank last year	Company/business	Return on equity 5-year average	latest 12 months	5-year EPS growth rate	Latest 12 mos sales (mil)	Latest 12 mos profits (mil)	Debt/ equity	Recent stock price	Market value (mil)	Latest 12 mos EPS	Latest 12 mos P/E	Est 1988 EPS	Book value/ share
66	43	Dreyfus fund management	21.7%	18.1%	19.0%	\$267.4	\$96.75	0%	26 1/2	\$1,092.4	\$2.34	11.3	\$2.82	\$12.97
67	■	AT Cross pens, luggage	21.6	26.7	16.0	206.2	31.44	0	31%	524.5	1.90	16.6	2.23	7.07
68	114	Liqui-Box packaging	21.5	24.8	26.0	80.4	6.86	11	38	86.5	2.96	12.8	NA	12.13
69	58	Paychex payroll accounting svcs	21.5	25.1	35.0	86.3	7.90	9	17 1/2	230.8	0.61	29.1	0.93	2.44
70	64	Uniforce Temp Personnel temporary personnel	21.5	23.1	34.0	83.4	2.69	0	11 1/2	51.9	0.59	19.5	0.83	2.60
71	■	AEP Industries plastics	21.3	21.2	21.0	91.6	3.96	17	10 1/4	30.9	1.31	7.8	NA	6.19
72	67	CEM precision instruments	21.2	20.0	29.0	13.5	1.88	0	16%	36.2	0.83	19.6	1.10	4.24
73	■	CareerCom vocational schools	21.1	33.3	63.0	138.2	7.40	95	10%	116.6	0.63	16.5	1.02	1.98
74	■	Howell Industries auto parts	21.1	27.8	61.0	53.0	3.97	6	23 1/4	24.5	3.79	6.1	NA	13.68
75	45	Technalysis computer & technical svcs	21.1	21.9	10.0	16.1	1.50	0	9%	15.7	0.92	10.6	1.20	4.25
76	■	Cambrex specialty chemicals	21.0	9.4	31.0	113.5	7.21	9	14%	73.2	1.35	10.9	1.80	13.94
77	44	Par Pharmaceutical drugs	21.0	26.8	41.0	94.1	11.78	35	12%	134.6	1.05	11.7	1.26	3.98
78	■	Total System Svcs bank card data processing svcs	20.9	34.1	39.0	52.7	8.40		21 1/2	341.3	0.53	40.6	0.77	1.55
79	■	AL Williams life insurance, securities brokerage	20.9	37.5	46.0	288.2	44.3	34	13%	339.9	1.79	7.7	2.42	4.77
80	■	Geodynamics military engineering and software	20.8	17.4	23.0	42.7	3.00	0	11	30.9	1.05	10.5	NA	6.21
81	71	Arnold Industries trucking	20.7	24.1	25.0	119.7	12.21	5	30%	192.7	2.07	14.6	2.70	8.59
82	54	Cherokee Group women's apparel & footwear	20.7	17.9	46.0	156.4	12.76	2	12 1/2	154.7	1.00	12.5	1.38	5.77
83	63	Syms discount stores	20.7	22.8	13.0	273.7	18.45	9	11%	207.4	1.05	11.2	1.27	4.59
84	■	McGrath RentCorp sells and leases modular offices	20.4	21.9	36.0	33.8	6.26	0	14%	63.4	1.43	10.3	2.02	6.65
85	39	Intertrans freight forwarding	20.3	16.6	25.9	122.1	2.90	0	11%	52.3	0.59	18.9	0.93	3.73
86	■	Spartan Motors heavy truck chassis	20.3	69.9	27.0	31.8	2.52	27	5%	27.0	0.51	11.5	NA	0.78
87	■	Emcon Assocs environmental consulting svcs	20.2	12.5	74.0	23.2	2.36	2	16 1/2	41.4	1.01	16.3	1.30	7.50
88	■	Arbor Drugs drugstores	20.1	17.7	33.0	246.5	6.66	44	12 1/2	79.3	1.05	11.9	1.26	5.93
89	106	Frontier Insurance Group insurance	20.0	32.0	59.0	39.4	7.03	0	11 1/4	41.2	1.92	5.9	NA	5.78
90	■	LSI Lighting Sys outdoor lighting fixtures	20.0	18.6	15.0	38.0	2.81	18	12 1/4	37.2	1.01	12.6	1.14	5.19

■ Not on last year's list. NA: Not available. Stock prices as of Oct. 17

Sources: William O'Neil & Co., Institutional Broker's Estimate System (IBES), Forbes.

The 200 Best Small Companies in America

Rank this year	Rank last year	Company/business	Return on equity 5-year average	latest 12 months	5-year EPS growth rate	Latest 12 mos sales (mil)	Latest 12 mos profits (mil)	Debt/ equity	Recent stock price	Market value (mil)	Latest 12 mos EPS	P/E	Est 1988 EPS	Book value/ share
91	■	Lawson Products fasteners, metal prods	19.9%	25.7%	20.0%	\$157.5	\$21.53	0%	25 1/4	\$376.0	\$1.47	17.5	\$1.84	\$5.73
92	■	ERC Intl technical consulting	19.7	24.4	33.0	134.8	5.31	90	11%	54.5	1.18	9.6	1.52	4.50
93	78	Luby's Cafeterias restaurants	19.7	21.0	13.0	247.4	26.35	3	24%	444.4	1.44	16.9	1.67	6.89
94	82	Crawford & Co insurance claims adj svcs	19.4	19.7	11.0	279.3	17.31	5	21 1/2	251.3	1.49	14.4	1.66	7.50
95	■	Interface Sys computer equip	19.3	18.1	11.0	24.3	2.76	7	6 1/2	27.6	0.64	10.2	NA	3.59
96	91	Tootsie Roll Industries candy	19.3	24.4	30.0	115.7	15.73	0	30%	279.6	1.71	18.0	NA	7.10
97	139	Avemco insurance	19.1	27.9	34.0	113.1	19.10	31	25	220.9	2.06	12.1	2.31	7.74
98	85	Spec's Music music, vidco stores	19.1	21.7	40.0	32.5	1.82	0	7%	30.4	0.46	17.1	NA	2.18
99	20	Traditional Industries photographic equip & svcs	19.1	25.3	30.0	47.1	4.91	1	9%	30.3	1.51	6.2	1.60	5.99
100	■	Giga-Tronics military electronics	19.0	17.5	9.0	17.2	3.28	0	9 1/4	29.2	0.97	9.5	1.45	6.12



Large companies own major chunks of several of these firms. McKesson, for example, is a major shareholder in PCS and Armor All Products. Collins Foods controls Sizzler Restaurants International, and Ashland Oil and First Mississippi hold more than 20% of Melamine Chemical each.

101	127	Systematics bank computer services	19.0	25.7	23.0	186.2	16.19	5	28%	316.0	1.46	19.7	2.03	5.80
102	102	McClain Industries waste-handling equip	18.8	29.3	31.0	33.7	2.12	10	12%	32.1	0.70	17.5	NA	3.49
103	■	Air Cargo Equip airline cargo containers	18.7	25.5	55.0	23.0	2.11	11	7%	19.5	0.83	9.3	1.25	3.28
104	87	Stockholder Sys financial software	18.7	23.3	15.0	20.2	3.15	0	8 1/4	33.1	0.78	10.6	1.20	3.36
105	■	Chambers Development waste mgmt, security svcs	18.6	19.1	40.0	97.1	15.14	97	22 1/2	504.9	0.67	33.0	1.11	3.42
106	■	Amwest Insurance Group property & casualty insurance	18.5	22.5	39.0	21.5	3.02	27	13 1/4	26.7	1.46	9.1	1.78	5.44
107	97	Diagnostic Products medical diagnostic kits	18.5	23.5	29.0	40.9	10.90	0	40%	237.5	1.76	22.9	2.52	7.87
108	■	Modern Controls precision instruments	18.5	23.9	24.0	8.0	1.51	1	10 1/4	21.6	0.71	14.4	0.90	3.01
109	■	Lindal Cedar Homes manufactures cedar homes	18.4	37.5	52.0	43.9	2.19	22	7 1/4	14.7	1.10	7.0	NA	3.07
110	■	Alico farming, ranching	18.3	22.2	10.0	22.8	7.26	0	22	157.9	1.02	21.6	NA	4.56

■ Not on last year's list. NA: Not available. Stock prices as of Oct. 17. Sources: William O'Neil & Co.; Institutional Brokers Estimate System (IBES); Forbes.

The 200 Best Small Companies in America

Rank this year	Rank last year	Company/business	Return on equity 5-year average	latest 12 months	5-year EPS growth rate	Latest 12 mos sales (mil)	Latest 12 mos profits (mil)	Debt/ equity	Recent stock price	Market value (mil)	Latest 12 mos EPS	12 mos P/E	Est 1988 EPS	Book value/ share
111	96	Bolar Pharmaceutical generic drugs	18.0%	46.3%	34.0%	\$122.9	\$24.43	0%	18½	\$363.7	\$1.25	14.8	\$1.68	\$2.54
112	94	FlightSafety Intl air & marine training	18.0	20.4	14.0	153.7	46.60	17	25½	875.2	1.38	18.8	1.78	6.74
113	148	Nordson industrial equip	18.0	29.9	31.0	235.0	30.30	13	43¼	442.2	2.84	15.2	3.70	10.67
114	99	Cintas uniform sales and rentals	17.6	19.1	22.0	215.6	18.06	51	34	480.7	1.36	25.0	1.92	7.11
115	65	Duquesne Sys computer software	17.5	20.8	55.0	46.6	10.07	0	18½	192.8	0.93	19.9	1.29	4.59
116	105	Electromagnetic Sciences microwave components	17.5	24.6	27.0	70.4	7.43	27	9¼	64.6	1.03	9.0	1.25	4.32
117	■	Thermal Industries vinyl insulated windows	17.5	19.7	58.0	29.4	1.40	0	5¼	10.1	0.72	7.3	NA	3.69
118	117	Hunt Manufacturing office supplies	17.4	23.9	17.0	173.0	15.10	20	27½	294.6	1.41	19.5	1.70	5.89
119	■	Pratt & Lambert paints and chemical coatings	17.4	18.2	14.0	231.0	8.86	38	17¼	101.0	1.46	11.8	NA	8.36
120	122	Clayton Homes manufactured housing	17.3	23.8	25.0	212.6	13.95	93	9¼	149.9	0.86	10.8	1.10	3.64
121	120	NY Marine & Gen Ins maritime insurance	17.3	20.1	41.0	78.9	15.40	0	15	130.4	1.77	8.5	2.03	8.81
122	116	American Software computer software	17.2	22.1	21.0	58.2	12.19	0	15½	157.9	1.19	12.9	1.58	5.42
123	108	Dycom Industries telecommunications svcs	17.2	22.8	48.0	116.3	4.52	28	17¼	78.7	1.01	17.1	1.16	4.44
124	101	Stryker specialty medical prods	17.1	18.9	22.0	160.6	14.24	5	21	327.9	0.92	22.8	1.20	4.82
125	■	Superior Industries Intl custom auto parts	17.1	22.6	26.0	183.1	10.65	60	20¼	129.5	1.64	12.3	1.95	7.39
126	73	Andover Controls building automation sys	17.0	19.0	18.0	23.1	2.86	0	11¼	40.4	0.80	14.4	0.93	4.33
127	149	Digital Commun Assocs computer networking equip	16.9	19.9	42.0	229.0	40.37	0	22	323.3	2.65	8.3	2.87	13.86
128	■	Marietta sample-size cosmetics	16.9	13.1	41.0	22.2	1.91	39	11¼	26.9	0.79	14.2	1.07	6.55
129	103	Allied Security security svcs	16.7	32.9	18.0	76.2	1.65	5	43	21.7	3.25	13.2	NA	8.27
130	137	Ryan's Family Steak House cafeteria-style restaurants	16.7	21.3	58.0	176.2	18.19	0	6	312.7	0.34	17.6	0.46	1.64
131	■	Graco fluid-handling pumps and sys	16.6	26.6	38.0	251.3	14.43	69	19½	133.4	1.80	10.8	2.35	7.81
132	■	National Insurance Group short-term fire insurance	16.6	65.3	90.0	15.9	3.29	2	16¼	68.7	0.79	20.6	1.30	2.08
133	163	TJ Intl* building materials	16.6	25.0	21.0	285.6	15.22	41	25	171.8	2.16	11.6	2.66	8.84
134	154	Mentor Corp surgical implants, health care prods	16.5	20.9	40.0	41.0	6.67	85	11½	126.3	0.60	19.4	0.87	2.93
135	141	Oil-Dri Corp of America absorbent materials	16.5	20.1	34.0	68.2	6.56	16	22½	127.3	1.18	19.1	1.42	5.99

■ Not on last year's list. NA: Not available. Stock prices as of Oct. 17. *Formerly Trus Joist.

Sources: William O'Neil & Co.; Institutional Brokers Estimate System (IBES); FORBES.

The 200 Best Small Companies in America

Rank this year	Rank last year	Company/business	Return on equity 5-year average	latest 12 months	5-year EPS growth rate	Latest 12 mos sales (mil)	Latest 12 mos profits (mil)	Debt/ equity	Recent stock price	Market value (mil)	Latest 12 mos EPS	P/E	Est 1988 EPS	Book value/ share
136	124	Helxon tele-transaction computers	16.5%	17.5%	31.0%	\$130.6	\$13.95	58%	15 1/4	\$203.8	\$1.05	15.0	\$1.52	\$6.17
137	133	Thermo Instrument Sys radiation and pollution instruments	16.5	20.8	26.0	95.1	7.86	40	11 1/4	179.0	0.52	22.6	0.65	2.48
138	■	Medicine Shoppe Intl drug stores	16.4	21.2	24.0	22.6	5.54	0	25 1/2	136.2	1.04	24.5	1.39	4.88
139	182	Prods Research & Chem sealants, specialty chemicals	16.4	22.8	18.0	98.5	8.14	46	15%	128.4	0.96	16.5	1.16	4.48
140	■	Alfa insurance	16.3	25.3	13.0	170.7	18.03	0	12 1/2	210.6	1.03	12.1	1.45	3.82
141	■	G&K Sw linen rental	16.3	26.6	51.0	94.0	7.36	50	15%	141.0	0.84	18.8	0.97	3.08
142	126	Teleflex auto, marine & aerospace pwr control equip	16.3	18.8	18.0	298.5	21.73	48	28 1/2	302.8	2.00	14.3	2.50	10.87
143	■	Trion electronic air cleaners	16.3	16.6	12.0	44.4	2.63	37	9%	40.0	0.65	15.0	0.92	3.84
144	104	Daxor sperm bank	16.2	26.2	48.0	6.4	3.71	0	5%	30.5	0.70	8.2	NA	2.66
145	■	DST Sys computer software	16.2	19.2	17.0	137.3	19.22	38	14 1/2	240.4	0.99	14.6	1.13	4.91



As a group, these 200 best small companies wield considerable financial power. Their aggregate profits exceed \$2.3 billion; total market capitalization is over \$36.7 billion.

146	135	Biomet medical equip	16.0	19.9	55.0	112.5	15.24	2	23 1/4	438.2	0.82	29.1	1.24	4.18
147	132	Dionex chromatography sys	16.0	20.7	26.0	69.6	11.58	0	24%	236.7	1.22	20.3	1.50	5.96
148	■	Piccadilly Cafeterias cafeteria-style restaurants	15.9	15.2	12.0	234.6	10.64	0	14 1/4	134.6	1.14	12.5	1.34	7.58
149	■	Polymer Intl plastic packaging	15.8	23.4	67.0	93.0	7.81	31	9%	61.0	1.18	7.8	0.81	5.06
150	152	Regal-DeLoit cutting tools	15.8	23.0	26.0	132.4	9.91	43	17 1/4	153.7	1.12	15.4	1.70	4.82
151	■	LS Starrett precision hand tools	15.8	15.6	22.0	169.9	15.85	28	26%	182.1	2.30	11.5	2.50	14.72
152	■	Watts Industries valves	15.7	15.4	16.0	181.4	18.93	19	25 1/2	320.6	1.50	17.0	1.85	9.78
153	■	Roy F Weston consulting and engineering svcs	15.7	23.1	54.0	167.3	4.99	20	15 1/2	128.9	0.72	21.5	1.13	2.78
154	146	Gerber Scientific computer-aided drafting equip	15.6	18.1	18.0	271.7	30.74	7	19	463.7	1.20	15.8	1.76	6.86
155	■	National Computer Sys optical scanning equip	15.4	14.5	14.0	220.8	15.07	44	14%	250.5	0.86	17.0	1.28	6.11

■ Not on last year's list. NA: Not available. Stock prices as of Oct. 17.

Sources: William O'Neil & Co., Institutional Brokers Estimate System (IBES), FORBES.

The 200 Best Small Companies in America

—Rank— this year last year		Company/business	Return on equity 5-year average	latest 12 months	5-year EPS growth rate	Latest 12 mos sales (mil)	Latest 12 mos profits (mil)	Debt/equity	Recent stock price	Market value (mil)	Latest 12 mos EPS	P/E	Est 1988 EPS	Book value/share
156	129	Fabricland* fabric stores	15.2%	16.2%	10.0%	\$63.1	\$2.39	39%	9%	\$26.5	\$0.89	11.1	\$1.10	\$5.50
157	■	S-K-I Ltd —ski resorts	15.0	17.4	24.0	76.1	5.26	54	14%	66.6	1.16	12.6	1.42	6.75
158	■	WH Brady labels, faceplates, membrane switches	14.9	13.5	9.0	153.0	10.30	5	21	157.3	1.36	15.4	1.80	10.15
159	150	ECC Intl† training simulators	14.8	18.9	12.0	44.2	4.40	33	8%	40.7	0.96	9.2	1.20	5.24
160	145	Vishay Intertechnology precision instruments	14.8	20.0	22.0	109.0	15.51	9	30%	240.5	1.96	15.5	2.71	9.80
161	171	Athey Products street sweepers, hauling equip	14.7	18.3	31.0	41.1	4.02	3	12%	39.2	1.15	10.7	1.44	6.87
162	143	Swift Energy oil and gas explor & develop	14.7	67.3	55.0	12.8	4.45	0	7	28.2	1.11	6.3	1.70	1.63
163	131	Sizzler Restaurants Intl steak houses	14.6	16.8	19.0	299.1	19.45	37	17%	292.4	1.15	15.2	1.53	6.93
164	■	Analysis & Technology engineering svcs	14.5	15.9	11.0	79.5	2.90	26	14%	30.5	1.34	11.0	1.45	8.86
165	55	Chili's restaurants	14.4	16.6	24.0	218.3	8.14	88	27%	160.7	1.45	18.7	1.77	8.30
166	160	Eldon Industries office equip	14.4	17.2	16.0	94.5	7.07	0	16%	115.5	0.99	17.0	1.22	5.99
167	■	MicroBilt communications systems	14.4	19.9	39.0	24.0	3.93	25	11%	82.1	0.63	17.7	0.90	3.21
168	■	Rockaway mail processing and packaging equip	14.4	11.5	10.0	63.2	4.69	46	10%	70.2	0.70	14.8	1.10	6.03
169	■	3Com computer network equip	14.4	15.4	78.0	283.2	24.18	1	19%	532.7	0.84	22.9	1.50	5.73
170	■	Interface carpet tile	14.2	14.9	22.0	299.1	17.32	54	15%	258.5	1.02	14.8	1.29	6.82
171	■	MTS Sys product-testing equip	14.1	17.2	28.0	119.1	8.81	23	21	92.6	1.96	10.7	2.42	11.65
172	166	Tennant industrial floor-care equip	14.1	15.3	12.0	176.2	10.66	4	25	132.4	2.01	12.4	2.35	13.13
173	162	Polaski Furniture wooden furniture	14.0	15.4	11.0	114.1	5.54	57	17%	49.9	1.92	9.1	2.15	12.71
174	■	Family Steak Houses of Fla cafeteria-style restaurants	13.8	24.4	15.0	28.0	1.63	46	2%	24.8	0.15	15.8	0.25	0.64
175	81	Axcom† marketing services	13.7	17.5	27.0	61.2	3.78	68	15%	71.0	0.88	17.3	1.17	4.75
176	■	Jackpot Enterprises coin-operated gambling machines	13.7	24.6	47.0	27.6	4.49	17	15%	75.7	0.90	17.5	1.34	3.81
177	■	Keystone Intl valves	13.7	17.1	9.0	320.7	27.98	50	18%	500.1	1.05	17.9	1.50	6.15
178	157	S&K Famous Brands men's discount apparel stores	13.7	18.8	10.0	47.5	1.99	65	12	24.7	0.97	12.4	1.30	5.14
179	■	Simpson Industries auto parts	13.5	15.0	34.0	157.8	7.58	49	14%	89.8	1.20	11.9	2.25	8.02
180	■	TCI Intl antennas and specialized commun equip	13.5	19.3	17.0	57.7	4.67	4	16%	52.3	1.36	11.9	1.82	8.05

■ Not on last year's list. *Formerly Fabric Wholesalers. NA: Not available.
†Formerly CCX Network.

Stock prices as of Oct. 17. †Formerly Educational Computer.
Sources: William O'Neil & Co.; Institutional Brokers Estimate System (IBES); Forbes.

The 200 Best Small Companies in America

Rank this year	Rank last year	Company/business	Return on equity 5-year average	latest 12 months	5-year EPS growth rate	Latest 12 mos sales (mil)	Latest 12 mos profits (mil)	Debt/ equity	Recent stock price	Market value (mil)	Latest 12 mos EPS	Latest 12 mos P/E	Est 1988 EPS	Book value/ share
181	■	Programming & Sys vocational schools	13.4%	17.0%	23.0%	\$22.2	\$2.05	0%	13%	\$24.7	\$1.14	12.1	NA	\$6.71
182	■	Quaker Chemical specialty chemicals	13.4	13.9	14.0	159.2	10.88	6	18	115.8	1.67	10.8	\$1.98	12.13
183	195	Guardsman Products coatings and polishes	13.2	16.7	15.0	137.3	5.95	3	13%	68.7	1.21	11.5	1.27	7.23
184	161	Isco precision instruments	13.2	21.1	14.0	30.0	4.05	0	16	65.0	0.98	16.3	1.17	4.73
185	136	Medex health care equip	13.2	17.3	13.0	28.0	2.74	9	10%	42.8	0.70	15.5	0.82	4.04
186	■	Weigh-Tronix electronic scales	13.2	24.2	25.0	60.8	4.98	60	23%	61.9	1.91	12.3	NA	7.96
187	177	LIN Broadcasting broadcasting	13.1	17.9	16.0	259.4	66.86	13	58%	3,010.4	1.22	47.7	1.99	7.21
188	■	Lawrence Ins Group property and casualty insurance	13.0	42.0	88.0	70.7	6.63	0	11	120.6	0.62	17.7	NA	1.44
189	■	Aspen Ribbons printer ribbons	12.9	23.7	16.0	18.1	1.36	34	3%	14.0	0.38	9.9	0.60	1.67
190	■	Cimco thermoplastics	12.9	15.7	29.0	44.3	2.88	15	15%	36.6	1.20	12.7	NA	7.69



Had you purchased an equal dollar amount of each of last year's 200 best small companies right after the Oct. 19 market crash, your portfolio would be up 14.6%, vs. 10.2% for the Nasdaq and 5.2% for the S&P 500.

191	198	Computer Entry Sys optical character recognition equip	12.9	12.9	40.0	81.7	3.03	60	6%	29.7	0.61	10.0	0.85	4.85
192	196	C&R Clothiers apparel stores	12.9	24.7	48.0	64.6	1.52	4	24	24.1	1.48	16.2	NA	4.81
193	170	Folley Mgmt Sys computer software for ins cos	12.9	14.3	12.0	199.1	18.77	82	24%	390.1	1.17	21.2	1.59	8.32
194	■	Groff Industries building materials	12.5	15.9	9.0	37.2	1.47	0	20%	18.7	1.56	13.0	NA	9.83
195	■	Dyansen retails fine art	12.4	21.2	15.0	29.3	1.11	34	2%	11.8	0.21	10.7	NA	1.00
196	■	Healthcare Svcs Group housekeeping svcs for nursing homes	12.3	10.8	15.0	33.6	1.88	0	9½	35.9	0.49	19.4	0.85	4.61
197	186	Engraph packaging materials	12.1	17.3	19.0	138.0	5.73	52	12%	100.7	0.65	19.6	0.68	4.20
198	174	Quarex Industries wholesale & retail meat and groceries	12.1	30.2	20.0	161.3	1.64	54	5%	15.1	0.56	9.2	NA	1.84
199	■	Myers Industries tire svc equip. plastic parts	12.0	17.4	18.0	165.5	6.63	93	16	95.5	1.11	14.4	1.60	7.00
200	■	Stepan specialty chemicals	12.0	23.5	22.0	312.0	12.92	63	48	135.5	4.40	10.9	5.23	19.50

■ Not on last year's list. NA: Not available. Stock prices as of Oct. 17

Sources: William O'Neil & Co.; Institutional Brokers Estimate System (IBES); FORBES.

The 200 Best Small Companies' Chief Executives

A diverse and talented bunch

As usual, the compensation of the men and women who run the 200 best small companies in America varied enormously last year, by type as well as by amount. John Scheck, the chief executive of 100th-ranked Giga-Tronics Inc., earned just \$72,600 last year, all in salary. Donald Pels, of 187th-ranked LIN Broadcasting, took in \$17.4 million, some \$16.4 million of which was in the form of exercised stock options and other stock gains. Between least-paid Scheck and most-paid Pels are 198 executives with different compensation packages, ages, and educational and career paths.

A few notes on our methodology: *Salary + bonus in-*

cludes all cash and deferred payments plus directors' fees and commissions. *Other* includes payments made under long-term compensation plans, restricted stock awards vested or released from restrictions, thrift plan contributions, and company-provided insurance and cars.

Executive stock holdings were based on shares of beneficial interest, including stock held by an executive's wife or minor children, even if beneficial ownership was disclaimed. Excluded (where possible) was stock in which the executive shared control, shares held by foundations, parents and by family members active in the business and options were exercisable in the current year.

Chief executive/Company	Age	—Years— with co as CEO		Undergraduate college	College degrees	Compensation (000)				—Stock owned— mkt value (000)	
						salary + bonus	other	stock gains	total	%	
Frank J Feitz ABI Am Businessphones	44	8	8			\$252.1	\$1.9	—	\$254.0	32.5%	\$5,739
Charles D Morgan Jr Acxiom	45	16	5	U of Arkansas	BS	112.5	—	—	112.5	22.48	15,624
J Brendan Barba AEP Industries	47	18	18	Fairleigh Dickinson	BS	217.0	5.6	—	222.6	44.58*	13,768
Sam J Frankino Agency Rent-A-Car	64	19	19			225.8	9.4	—	235.2	60.25	245,118
Thomas A Prendergast Air Cargo Equip	54	5	3	Fordham	BS	24.0	—	—	24.0 ¹	12.66	2,473
Goodwin L Myrick Alfa	63	16	10			—	—	—	— ²	44.71 ³	104,208
Ben H Griffin Jr Alico	78	27	15			97.1	—	—	97.1	0.12 ⁴	191
Neal H Holmes Allied Security	58	31	31			364.6	18.1	—	382.7	29.19	7,620
Patricia J Defibaugh Aloette Cosmetics	42	10	10			186.2	—	—	186.2	27.19	5,583
Martin Lerner American List	55	23	23	Brooklyn Poly	BS	424.0	28.1	—	452.1	10.39*	3,067
James C Edenfield ⁵ American Software	53	18	6	Georgia Inst of Tech	BS	300.3	2.0	—	302.3	18.05	28,287
Richard H Savage Amwest Insurance Group	69	18	18			317.6	26.2	—	343.8	37.03*	12,085
A T Mollegen Jr Analysis & Technology	51	17	12	Yale	BS	173.4	19.7	\$42.8	235.9	4.69*	1,422
William J LaPointe Andover Controls	47	9	9	Northeastern	BA, MS, MBA	135.8	—	77.5	213.3	1.68	674
Eugene Applebaum Arbor Drugs	51	25	25	Wayne State	BS	450.0	—	—	450.0	54.81*	43,449

¹Includes family holdings. ²Less than 0.01%. ³Fiscal 1987 data. ⁴Multiple stock classes have been combined. ⁵Consulting fee. ⁶Executive officers are paid by Alfa Mutual Insurance Co. (which owns 38.7% of Alfa Corp.) under a management service contract. ⁷Includes 6.5 mil shares of Alfa Mutual Insurance and 1.8 mil shares Alfa Mutual Fire Insurance Co. ⁸Most of these shares are owned by Ben Hill Griffin, Inc., of which Messrs Ben H Griffin Jr, and Ben Hill Griffin III are directors. Ben Hill Griffin III is the son of Ben H Griffin Jr and vice chairman of Alico. ⁹James C Newberry is co-CEO. His salary and bonus are the same as James C Edenfield's.

The 200 Best Small Companies' Chief Executives

Chief executive/Company	Age	—Years— with co as CEO		Undergraduate college	College degrees	Compensation (000)				—Stock owned— mkt value (000)	
						salary + bonus	other	stock gains	total	%	
Jeffrey M Sherman Armor All Products	39	10	3			\$320.8	\$23.2	—	\$344.0	—	\$32
Edward H Arnold Arnold Industries	49	19	6	U of Notre Dame	— BS	365.8	30.0	—	395.8	31.64%*	60,978
Edward M Esber Jr Ashton-Tate	36	4	4	Case Western	BS, MS, MBA	874.1	5.5	\$5,246.2	6,125.8	0.35	2,203
Peter C Williams Aspen Ribbons	42	11	11	U of Wyoming	BS	107.0	—	—	107.0	21.57	2,788
James D Cloonan Athey Products	55	5	5	Fenn College	BS	160.0	—	—	160.0	0.27	105
William P Condon Avenco	51	26	6			608.4	22.2	152.4	783.0	0.70*	1,548
Michael T Zak BHA Group	38	8	2			120.9	—	75.5	196.4	0.44%	204
Dane A Miller Biomet	42	11	11	Gen Motors Inst	BS, PhD	152.5	—	—	152.5	5.93*	25,964
Robert Shulman Bolar Pharmaceutical	55	28	28	Columbia	BS	306.5	—	187.9	494.4	12.40	47,686
Francis L Reed Boston Acoustics	55	9	9	Boston U	BA	210.8	—	—	210.8	37.27	8,021



Three of America's best small companies are headed by women: Jean Buttner of Value Line, Patricia DeFibaugh of Aloette Cosmetics, and Ann Lieff of Spec's Music. Last year only Ann Lieff was on this list. A trend?

James E Larson WH Brady	61	16	2	U of Wisconsin	BBA	364.2	—	—	364.2	0.23%	363
Ira B Brown Brandon Sys	61	20	20	Merch Marine Acad	BS, MS	249.6	—	2.5	252.1	51.29	14,994
Paul S Bush Bush Industries	52	29	17	Rensselaer Poly	BS	763.4	1.8	—	765.2	47.15%	20,503
Paul S Reisbord C&E Clothiers	45	21	17	Northwestern	BA, MBA, PhD	495.6	—	—	495.6	58.36	17,935
Thomas A McConomy Calgon Carbon	55	33	3	Carnegie-Mellon	BS	332.1	—	—	332.1	26.77%	76,931
Cyril C Baldwin Jr Cambrex	61	7	7	Lehigh	BS	378.4	9.4	—	387.8	3.22	2,611
Richard F Brissette Canonie Envir Svcs	54	8	8	Carnegie-Mellon	BS	334.6	—	248.7	583.3	—	—
Michael R McKinney CareerCom	39	8	2	Wright State	BA	687.8	55.0	—	742.8	3.12	3,632
Michael J Collins CEM	46	10	10	U of Florida	BS, PhD	150.0	14.1	—	164.1	14.55	5,241
John G Rangos Sr Chambers Development	59	17	17			240.0	—	—	240.0	47.02%	240,857

*Includes family holdings. †Less than 0.01%. §Fiscal 1987 data. \$Multiple stock classes have been combined.

The 200 Best Small Companies' Chief Executives

Chief executive/Company	Age	—Years—		Undergraduate college	College degrees	—Compensation (000)—				—Stock owned—	
		with co	as CEO			salary + bonus	other	stock gains	total	%	mkt value (000)
James P Argyropoulos Cherokee Group	44	16	16			\$700.0	—	—	\$700.0	10.52%*	\$16,283
Norman E Brinker Chili's	57	5	5	San Diego State	BS	183.1	—	—	183.1	7.29	11,677
Russell T Gilbert Cimco	58	29	29	U of Arizona	BS	202.6	—	\$386.4	589.0	18.28*	6,631
Richard T Farmer Cintas	53	31	20	Miami U (Ohio)	BA	314.5	\$16.7	—	331.2	37.55*	169,425
James L Clayton Clayton Homes	54	22	22	U of Tennessee	BS, JD	262.5	—	—	262.5	49.44	73,576
Brian T Cunningham Computer Entry Sys	52	19	8	St Francis Coll (Pa)	BS	258.1	—	—	258.1	2.41*	715
Allyn V Essman CPI	56	32	15	Washington U (St L.)	BA	766.0	19.4	—	787.4	3.87	14,055
Forrest L Minix Crawford & Co	61	39	1	U of Georgia	BA	346.4	7.0	143.0	499.4	—†	194
Bradford R Boss AT Cross	55	30	9	U of Rhode Island	BS	437.5	35.7	—	473.2	18.62%§	97,876
Joseph Feldschuh MD Daxor	53	14	14	Columbia	BA, MD	—	—	—	—§	54.61	16,672
Sigi Ziering Diagnostic Products	60	15	14	Brooklyn College	BS, MS, PhD	275.0	27.5	—	302.5	21.28*	50,542
Bertil D Nordin Digital Commun Assocs	54	7	7	Northwestern	BA, MBA	895.9	—	4,389.1	5,285.0	0.70	2,244
A Blaine Bowman Dionex	42	11	8	Brigham Young	BS, MBA	342.8	—	852.3	1,195.1	1.95	4,524
Elliot S Jaffe Dress Barn	62	26	26	U of Pa (Wharton)	BS	520.0	12.0	—	532.0	35.63	108,926
Howard Stein Dreyfus	62	33	23			1,715.1	799.4	—	2,514.5	2.77	30,239
Thomas A McDonnell DST Sys	43	20	4	Rockhurst College	BA, MBA	1,244.8	29.7	580.3	1,854.8	0.74*	2,195
Glen F Chatfield Duquesne Sys	45	18	12	Penn State	BS	241.9	—	—	241.9	9.75	19,000
Harris A Shapiro Dyansen	53	8	7	U of Pa (Wharton)	BS	202.5	8.0	—	210.5	31.39	3,719
Thomas R Pledger Dycom Industries	50	4	4			288.0	—	—	288.0	3.21	2,467
Landon T Clay Eaton Vance	62	20	17	Harvard	BA	435.8	29.6	718.2	1,183.6	27.06§	20,135
George W Murphy ECC Intl	52	18	18	Fordham	BS	259.0	51.4	—	310.4	1.93	763
Robert Silverstein Eldon Industries	65	39	39			325.2	—	524.0	849.2	12.77*	14,737
John E Pippin Electromagnetic Sciences	60	20	20	Georgia Inst of Tech	BS, PhD	274.5	—	—	274.5	1.67	1,079
Thorley D Briggs Emcon Assocs	57	8	3	Harvard	BA	74.8	20.2	107.9	202.9	3.40	1,411
Leo Benatar Engraph	58	7	7	Georgia Inst of Tech	BIE	323.9	25.2	30.6	379.7	3.26	3,284

*Includes family holdings. †Less than 0.01%. ‡Fiscal 1987 data. §Multiple stock classes have been combined. ¶Dr Feldschuh's compensation is less than \$60,000.

The 200 Best Small Companies' Chief Executives

Chief executive/Company	Age	—Years—		Undergraduate college	College degrees	—Compensation (000)—			—Stock owned—		
		with co	as CEO			salary + bonus	other	stock gains	total	%	mkt value (000)
Jack E Aalseth ERC Intl	55	12	12	U of Cal (San Diego)	BS	\$356.7	—	—	\$356.7	3.63%	\$1,995
John M Kaiser Expeditors Intl	48	9	9			291.7	\$0.8	—	292.5	6.61	6,424
Tony J Bosboom Fabricland	65	20	20			109.0	—	—	109.0	9.33*	2,474
Eddie L Ervin Jr Family Steak Houses of Fla	59	7	7	Erskine College	BA	130.0	—	—	130.0	17.54	4,371
Robert A Kierlin Fastenal	49	21	21	U of Minnesota	BS, MA	121.0	—	—	121.0	30.88	28,564
Albert L Ueltschi FlightSafety Intl	71	37	37			204.6	—	—	204.6	35.35	309,364
Charles B Johnson Franklin Resources	55	34	34	Yale	BS	418.2	71.5	—	490.7	20.62	114,362
Walter A Rhulen Frontier Insurance Group	57	26	26	U of Connecticut	BS	122.0	—	—	122.0	17.17§	7,340
Richard Fink G&K Svcs	58	24	18	U of Minnesota	BA, B. Phil.	195.9	8.8	—	204.7	9.02§	12,739
Morris M Bennett Geodynamics	56	20	14	Long Beach State Coll	BS, MS	200.7	21.1	—	221.8	5.04	1,541
H Joseph Gerber Gerber Scientific	64	40	40	Rensselaer Poly	BS	451.4	—	—	451.4	12.31*	57,781
John W Scheck Giga-Tronics	58	8	8	Illinois Inst of Tech	BS	66.1	6.5	—	72.6	5.63	1,597
Ron E Doggett GoodMark Foods	53	27	3	Mankato State College	BBA	332.4	—	—	332.4	28.54*	15,864
David A Koch Graco	58	32	26	St Thomas College	BA	356.2	3.4	—	359.6	32.19	43,655
Robert S Thompson Groff Industries	55	27	2			151.8	—	—	151.8	2.48	474
Robert S Bowen Group 1 Software	50	5	2	Northwestern	BS, MBA	—	—	—	— ⁷	0.36	144
Keith C Vander Hyde Guardsmen Products	60	29	10			317.7	—	\$27.9	345.6	0.83	565
J William Robinson John H Harland	68	38	19	U of Alabama	BS	377.5	3.6	—	381.1	1.97	14,228
Daniel P McCartney Healthcare Svcs Group	37	11	11	Villanova	BS	198.3	—	—	198.3	16.17	5,790
Russell A Gerdin Heartland Express	47	10	10	Moorhead St Coll (Minn)	BA	300.0	—	—	300.0	62.60	31,300
John W Henry Jack Henry & Assocs	53	11	11			132.4	3.0	—	135.4	35.76	4,668
Herbert H Freedland Howell Industries	51	30	17	U of Michigan	BA	275.0	26.9	—	301.9‡	52.68‡	12,762
Ronald J Naples Hunt Manufacturing	42	12	7	West Point	BS, MA, MBA	340.1	420.1	309.5	1,069.7	1.36	3,999
Terrence M Hunt HWC Distribution	40	13	13	Southern Methodist	BS	524.8	—	1,564.4	2,089.2	9.46§	5,963
Roger J Sippl Informix	33	8	8	U of Cal (Berkeley)	BS	157.9	—	—	157.9	8.09*	7,965

*Includes family holdings. †Less than 0.01%. ‡Fiscal 1987 data. §Multiple stock classes have been combined. ⁷Management consulting agreement. Compensation not disclosed.

The 200 Best Small Companies' Chief Executives

Chief executive/Company	Age	—Years— with co as CEO		Undergraduate college	College degrees	Compensation (000)				—Stock owned— mkt value	
						salary + bonus	other	stock gains	total	%	(000)
Kenneth A Eldred Inmac	45	12	12	Stanford	BA, MBA	\$282.4	—	—	\$282.4	30.84%	\$38,840
Thomas W Haley Innovex	52	16	16	U of Minnesota	BA	81.0	—	—	81.0	20.59*	3,799
Ray C Anderson Interface	54	15	15	Georgia Inst of Tech	BA	240.0	\$3.4	—	243.4	10.15	26,110
Carl L Bixby Interface Sys	49	19	19	U of Michigan	BBS/BBS	179.4	12.6	—	192.0	3.80	1,050
Sam N Wilson Intertrans	53	10	10	North Texas State	BA	117.2	—	—	117.2	7.00	3,643
Michael P Sullivan Intl Dairy Queen	53	14	1	Marquette	BS, JD	—	—	—	— [§]	0.11	138
Robert W Allington Iscor	53	29	27	U of Nebraska	BS, MS	172.0	10.2	—	182.2‡	51.00‡	33,102
Donald D Iverson Iverson Technology	56	6	6	Stetson	BS	270.0	95.0	—	365.0	43.59	17,923
Neil Rosenstein Jackpot Enterprises	62	8	8	CCNY	BA	292.7	2.0	\$3.8	298.5‡	5.72‡	4,322
Robert S Fremont Juno Lighting	63	12	12	NYU	BA	393.3	26.6	—	419.9	13.19	23,858



Of these 200 executives, 46 made it to the top without a college degree. Another fact: As a result of last year's market crash, only 39 of these executives exercised stock options in their last fiscal year. Donald A. Pels of LIN Broadcasting made the most from options, \$16.4 million.

Raymond A LeBlanc Keystone Intl	58	33	3	U of Detroit	BBS	579.7	30.0	—	609.7	0.62	3,090
Michael King King World Productions	40	15	4	Fairleigh Dickinson	BA	725.0	—	—	725.0	8.76*	55,509
Lawrence A Shore Lawrence Insurance Group	60	3	2	Michigan State	BA	240.0	—	—	240.0	0.15*	180
Daniel J Mayo Lawson Products	58	23	5			232.6	20.5	—	253.1	0.29*	1,082
Robert S Kendall LDI	49	16	16	Case Western	BA	479.8	35.0	—	514.8	21.75	13,958
Lloyd G Schermer Lee Enterprises	61	34	15	Amherst College	BBA, MBA	469.0	—	2,042.1	2,511.1	3.97*	26,685
Donald A Pels LIN Broadcasting	60	19	19	U of Pennsylvania	BS, JD	928.3	21.7	16,428.0	17,378.0	1.26*	38,072
Robert W Lindal Lindal Cedar Homes	41	20	7	U of British Columbia	BE	175.8	5.2	107.3	288.3	11.12	1,639
Samuel B Davis Liqui-Box	46	25	6			448.1	11.5	133.1	592.7	10.51	9,090
Robert J Ready LSI Lighting Systems	48	12	12	Babson College	BBS	366.0	32.0	—	398.0	9.21*	3,425

*Includes family holdings. †Less than 0.01%. ‡Fiscal 1987 data. §Multiple stock classes have been combined. ¶New CEO, compensation data not available.

The 200 Best Small Companies' Chief Executives

Chief executive/Company	Age	—Years—		Undergraduate college	College degrees	Compensation (000)				—Stock owned—	
		with co	as CEO			salary + bonus	other	stock gains	total	%	mkt value (000)
John B Lahourcade Luby's Cafeterias	63	19	6	U of Texas	BBA	\$253.8	\$131.0	—	\$384.8‡	1.23%*‡	\$5,482
Joseph F Gloudeman MacNeal-Schwendler	53	10	3	Marquette	BS, MS, Dr Ing	278.0	—	\$56.5	334.5	3.21	4,708
John S Nadolski Marietta	37	13	13	Syracuse	BA	150.0	—	—	150.0	17.45	4,376
Kenneth D McClain McClain Industries	47	20	20			175.0	—	—	175.0	48.27*	12,259
Robert P McGrath McGrath RentCorp	54	9	9	U of Notre Dame	BS	233.7	19.0	—	252.7	28.81*	18,258
Craig Waldbillig Medex	62	29	17	Boston U	BS	172.1	4.0	—	176.1	13.70*	5,861
Jerome F Sheldon Medicine Shoppe Intl	53	9	8	Brooklyn College	BA, MBA, JD	349.8	3.7	—	353.5	3.24	4,432
James W Crook Melamine Chemicals	58	16	1			160.0	0.3	—	160.3	0.28	182
Christopher J Conway Mentor Corp	49	19	19			225.1	—	—	225.1	2.73	3,453
P E Sadler MicroBilt	53	5	5	Vanderbilt	BS	120.0	4.8	—	124.8	39.42*	26,934
William N Mayer Modern Controls	58	16	1	U of Wisconsin	BS	145.8	1.0	—	146.8	3.24*	697
Mario M Morino Morino Assocs	45	15	15	Case Western	BBA	360.0	30.0	—	390.0	35.34	51,321
Donald M Sullivan MTS Sys	52	10	1	U of Minnesota	BS, BA	163.2	6.2	93.5	262.9‡	0.49%‡	449
Stephen E Myers Myers Industries	44	25	4	Harvard	BA, MBA	166.3	4.9	2.8	174.0	10.51*	9,134
Roy McKnight Mylan Labs	67	13	12	Princeton	BSE	270.9	18.8	—	289.7	3.87	12,775
Richard Soloway Napco Security Sys	42	16	7			358.0	—	—	358.0‡	20.56%‡	11,635
Charles W Oswald National Computer Sys	60	18	18	U of Kansas	BA, MBA	274.8	16.0	—	290.8	11.88*	29,543
Mark A Speizer National Insurance Group	45	16	2			300.0	—	—	300.0	48.39	19,013
Lloyd E Cotsen Neutrogena	59	31	21	Princeton	BA, MBA	1,005.6	60.8	—	1,066.4	39.89*	240,448
Richard H Rhoads New England Business Svcs	58	23	13	U of Virginia	BA, MBA	424.0	3.7	—	427.7	6.48*	24,084
NY Marine & Gen Ins ^o						—	—	—	—	—	—
William P Madar Nordson	49	3	3	Purdue	BS, MBA	740.0	10.0	—	750.0	0.32	1,298
Robert C Mitchell Northwest Teleproductions	55	19	10	U of Minnesota	BA	213.4	4.7	—	218.1	3.50*	458
William C Killgallon Ohio Art	49	20	10	Ohio State	BS	399.0	—	—	399.0	16.26	3,880
Richard M Jaffee Oil-Dri Corp of America	52	31	28	U of Wisconsin	BA	291.4	—	86.1	377.5	18.84*	23,083

*Includes family holdings. †Less than 0.01%. ‡Fiscal 1987 data. §Multiple stock classes have been combined. ¶John N Blackman, founder & CEO, passed away recently. Company has not designated a new CEO.

The 200 Best Small Companies' Chief Executives

Chief executive/Company	Age	—Years— with co as CEO		Undergraduate college	College degrees	—Compensation (000)—				—Stock owned— mkt value (000)	
						salary + bonus	other	stock gains	total	%	
Perry Levine Par Pharmaceutical	67	10	10			\$472.0	—	—	\$472.0	6.55%*	\$8,846
B Thomas Golisano Paychex	47	17	17			242.6	\$16.0	—	258.6	17.28*	39,636
Donald B Dahlin PCS	38	7	7	U of Tulsa	BS	372.4	9.5	—	381.9	—†	23
Irving Levit Penn Treaty American	59	17	17			116.2	—	—	116.2 ¹⁰	62.44	11,820
James C Malmberg Piccadilly Cafeterias	51	31	4	Louisiana State	BS, MBA	236.0	0.5	—	236.5‡	1.19%‡	1,568
John F Cogan Jr Pioneer Group	62	26	25	Harvard	BS, JD	409.4	—	—	409.4	17.28	18,452
G Larry Wilson Policy Mgmt Sys	42	22	7	U of South Carolina	BS, MBA	1,128.4	15.1	\$161.2	1,304.7	0.73	2,836
Van L McNeel Polymer Intl	63	25	26	U of Alabama	LLD	242.9	—	—	242.9	86.36*	41,978
Raymond D Stevens Jr Prest & Lambert	61	20	17	U of Pennsylvania	BS	350.0	2.6	—	352.6	7.29*	7,328
George J Collins T Rowe Price Assoc	48	16	4	Virginia Mil Inst	BA, MBA	540.0	45.7	—	585.7	3.60*	8,266
Dean M Willard Products Research & Chem	42	16	1	Cal State (Long Beach)	BA	598.8	—	—	598.8	0.96	1,218
Irwin Mautner Programming & Sys	55	29	25	City University of NY	BBA	436.2	131.6	—	567.8	26.34*	6,504
Bernard C Wampler Pulaski Furniture	57	33	21	North Carolina State	BS	292.3	—	66.0	358.3	4.30	2,128
Peter A Benoliel Quaker Chemical	57	27	22	Princeton	BA	286.3	8.6	27.5	322.4	14.37*	16,652
Frank Castellana Quarex Industries	33	15	6			146.0	—	—	146.0	13.97	2,111
John C Warner Quiksilver	41	2	1	U of Tulsa	BS	275.0	—	—	275.0 ¹¹	—†	34
Alan M Zimmer Reeds Jewelers	29	7	3	U of Georgia	BBA, MBA	152.3	6.9	—	159.2	20.24*	5,082
James L Packard Regal-Beloit	46	9	4			239.7	—	107.6	347.3	0.93	1,442
Carl H Lindner Republic American	69	15	15			21.3	—	—	21.3 ¹²	17.53 ¹³	48,083
Gerald E McGinnis Respironics	54	17	17	U of Illinois	BS, MS	84.5	250.2	—	334.7	17.07	3,465
John J Cahill Rockaway	56	20	15	Lehigh	BS	251.3	—	—	251.3	0.85	597
John W Rollins Sr Rollins Environmental Svcs	72	20	1			450.0	—	—	450.0	7.82*	65,443
T Mark McCall Ryan's Family Steak House	30	10	2	The Citadel	BS	101.6	—	—	101.6	0.68	2,137
Stuart C Siegel S&K Famous Brands	45	21	3	East Carolina	BS	418.0	15.2	—	433.2	48.59	12,012
Paul B Shore Shorewood Packaging	67	22	22			490.0	120.3	—	610.3	13.14*	27,018

*Includes family holdings. †Less than 0.01%. ‡Fiscal 1987 data. §Multiple stock classes have been combined. ¹⁰Mr Levit also receives commissions from the Irv Levit Insurance Management Corp. ¹¹Annualized salary. ¹²Director's fee. ¹³Owned indirectly through American Financial Corp.

The 200 Best Small Companies' Chief Executives

Chief executive/Company	Age	—Years— with co as CEO		Undergraduate college	College degrees	—Compensation (000)—				—Stock owned—	
						salary + bonus	other	stock gains	total	%	mkt value (000)
Thinh Q Tran Sigma Designs	35	7	7	U of Wisconsin	BS, MS	\$77.0	—	—	\$77.0	7.72%	\$5,520
Robert W Navarre Simpson Industries	55	24	21	U of Notre Dame	BA	271.3	\$6.7	—	278.0	1.26*	1,130
Thomas L Gregory Sizzler Restaurants Intl	53	14	8	Michigan State	BS	327.1	30.0	—	357.1	0.91	2,665
Preston L Smith S-K-I Ltd	58	30	30	Earlham College	BS	457.0	—	—	457.0	12.20	8,009
Peter C Beshouri Sound Advice	33	15	6			148.2	—	—	148.2‡	16.36‡	3,103
Terry N Worrell Sound Warehouse	43	14	14	Midwestern	BA, MBA	306.0	—	—	306.0	35.83*	27,960
George W Strykiel Spartan Motors	59	13	13	London U College	BS	82.2	4.7	—	87.6	19.21	5,197
Ann S Loeff Spec's Music	36	14	8	U of Denver	BS	117.0	16.9	—	133.9	31.51	9,586
Douglas R Starrett LS Starrett	68	36	36	Dartmouth College	BA	216.0	—	—	216.0	2.56	4,658
F Quinn Stepan Stepan	51	27	4	U of Notre Dame	BA, MBA	454.7	14.6	\$113.6	582.9	16.36*	22,157



Is big better? The median total compensation for bosses of the country's 200 best small companies was \$300,000, versus a median \$782,253 for the heads of America's 800 largest companies. The best paid of the small company heads: LIN Broadcasting's Donald A. Pels, at \$17.4 million total compensation. Worst paid: Giga-Tronics' John Scheck, at \$72,300.

Larry A Dean Stockholder Sys	46	17	17	Georgia Inst of Tech	BS, MBA	261.0	—	—	262.0	41.59*§	13,773
John W Brown Stryker	54	11	11	Auburn	BA	295.0	28.7	—	323.7	4.85	15,901
Louis L Borick Superior Industries Intl	64	31	31			625.0	—	—	625.0	29.52*	38,200
A Earl Swift Swift Energy	55	9	9	U of Oklahoma	BS, JD	270.5	2.1	—	272.6	9.18	2,603
Sy Syms Syms	62	29	29	NYU	BA	777.0	57.2	—	834.2	55.89	115,913
John E Steuri Systematics	49	0	0	U of Kansas	BS	200.0	—	—	300.0 ¹⁴	—†	—
Walter C Minnick TJ Intl	46	14	2	Whitman Coll	BS, MBA, JD	265.8	9.3	260.9	536.0	0.73	1,255
John W Ballard TCI Intl	55	20	14	Dartmouth	BA, MS, MBA	303.1	—	—	303.1	13.71	6,703
Victor A Rocchio Technalysis	61	21	21	U of Minnesota	BA	260.5	—	134.3	394.8	17.68	2,779
Lennox K Black Teleflex	58	27	16	McGill U (Montreal)	BCOM	331.2	45.4	—	376.6	3.77	11,409

*Includes family holdings. †Less than 0.01%. §Fiscal 1987 data. §Multiple stock classes have been combined. ¹⁴John E Steuri took office Oct 1988. Salary is annualized.

The 200 Best Small Companies' Chief Executives

Chief executive/Company	Age	—Years—		Undergraduate college	College degrees	—Compensation (000)—				—Stock owned—	
		with co	as CEO			salary + bonus	other	stock gains	total	%	net value (000)
Raymond D Meyo Telxon	45	16	3	U of Notre Dame	BA, JD	\$390.0	\$4.9	\$1,638.6	\$2,033.5	1.10%	\$2,237
Roger L Hale Tennant	53	27	12	Brown	BA, MBA	328.8	8.2	—	337.0	3.29	4,360
David H Weis Thermal Industries	57	28	28	U of Pittsburgh	BBA	128.0	5.6	—	133.6	58.78	5,938
Arvin H Smith Thermo Instrument Sys	59	5	2	Texas Christian	BA	120.0	—	—	120.0† ¹⁵	0.21† ¹⁶	370
L William Krause 3Com	46	7	6	The Citadel	BS	250.4	—	—	250.4	2.49	13,121
Melvin J Gordon Tootsie Roll Industries	68	36	26	Harvard	AB, MBA	472.8	30.0	—	502.8	18.46 ¹⁷	51,648
Richard W Useery Total System Svcs	41	23	6	Auburn	BS	176.1	23.4	—	199.5	0.37	1,275
Arlend D Dunn Traditional Industries	49	13	12			233.3	—	—	233.3	26.57*	8,052
Robert J Higgins Trans World Music	47	15	15			810.5	73.7	—	884.2	68.98*	158,406
Hugh E Carr Trion	56	20	13	Penn State	BS	149.7	1.4	—	151.1	5.54	2,220
Richard E Grey Tyco Toys	53	30	3	UCLA	BS	1,554.5	—	—	1,554.5	2.03	1,457
Henry D Sahakian Uni-Marts	51	26	26			191.0	—	—	191.0	17.86*§	7,655
John Fanning Uniforce Temp Personnel	57	34	34			199.8	—	—	199.8	38.33	19,680
Jean B Buttner Value Line	53	24	1	Vassar College	BA	188.9	—	—	188.9	80.50*	170,166
James E Mohrhauser Versa Technologies	66	18	18			232.6	—	104.5	337.1	9.51*	7,219
Ronald D Ordway Video Display	46	13	13			80.0	—	—	80.0	46.29*	15,399
Felix Zandman Vishay Intertechnology	60	26	26	U of Nancy (France)	ME, PhD	417.9	—	—	417.9	15.09§	36,301
Robert E Cook VM Software	47	7	5	Indiana U of Pa	BS, MBA	171.9	49.1	—	221.0	18.95*	16,528
Timothy P Home Watts Industries	50	29	10	Trinity College	BA	\$12.0	—	—	512.0	12.18* ¹⁸	39,036
John S Barry WD-40	64	19	19	U of Minnesota	BS, MBA	350.0	32.5	108.5	491.0	3.13*	7,775
Richard S Bradley Weigh-Tronix	60	16	8			280.0	8.7	—	288.7	2.38	1,450
Thomas M Duff Wellman	41	17	3	Rutgers	BA	344.8	42.4	—	387.2	3.42	19,115
Roy F Weston Roy F Weston	77	31	31	U of Wisconsin	BS, MCE	336.7	46.8	—	383.5	9.53§	11,991
Arthur L Williams AL Williams	46	11	7	Mississippi State	BS, MS	145.0	—	—	145.0 ¹⁹	15.83	53,816
Thomas M Owens XL/Datacomp	51	9	9	Loyola U (Ill)	BS	275.0	—	—	275.0	25.93*	45,163

*Includes family holdings. †Less than 0.01%. §Fiscal 1987 data. §Multiple stock classes have been combined. ¹⁵Annualized salary paid by Thermo Electron, parent company. ¹⁶Holdings are through a proportionate interest in Thermo Electron. ¹⁷Includes shares jointly held with Mrs. Gordon, a company officer. ¹⁸Excludes shares held in family trust. ¹⁹Arthur L Williams also receives substantial commissions from Mass Indemnity & Life Ins, a subsidiary of Primerica. Primerica owns 17% of AL Williams.

Company Directory

Want to find out more about the 200 best small companies? This alphabetical directory tells how to contact them and shows their relative rankings by return on equity, sales, profits and market value. Use the 5-year average ROE ranking to find a company in the tables beginning on page 285.

Company	Exch	Ticker	Where they rank				City, state	Telephone
			5-year average ROE	sales	profit	market value		
ABI Am Businessphones	a	AB	62	164	189	192	Irvine, CA	(714) 472-2200
Acxiom	o	ACXM	175	121	144	117	Conway, AR	(501) 329-6836
AEP Industries	o	AEPI	71	100	142	160	Moonachie, NJ	(201) 935-6500
Agency Rent-A-Car	o	AGNC	48	42	24	23	Solon, OH	(216) 349-1000
Air Cargo Equipment	o	ARCE	103	178	177	188	Rancho Dominguez, CA	(213) 603-1996
Alfa	o	ALFA	140	52	41	57	Montgomery, AL	(205) 288-3900
Alico	o	ALCO	110	179	97	71	LaBelle, FL	(813) 675-2966
Allied Security	o	ASCY	129	109	186	182	Pittsburgh, PA	(412) 884-2636
Aloette Cosmetics	o	ALET	45	188	167	186	Malvern, PA	(215) 644-8200
American List	a	AMZ	33	199	182	166	Great Neck, NY	(516) 466-0602
American Software	o	AMSWA	122	125	66	70	Atlanta, GA	(404) 261-4381
Amwest Insurance Group	a	AMW	106	183	151	173	Woodland Hills, CA	(818) 704-1111
Analysis & Technology	o	AATI	164	106	153	162	North Stonington, CT	(203) 599-3910
Andover Controls	o	ANDO	126	177	156	147	Andover, MA	(617) 470-0555
Arbor Drugs	o	ARBR	88	23	105	110	Troy, MI	(313) 643-9420
Armor All Products	o	ARMR	50	74	25	18	Irvine, CA	(714) 553-1003
Arnold Industries	o	AIND	81	80	61	63	Lebanon, PA	(717) 274-2521
Ashton-Tate	o	TATE	44	10	6	8	Torrance, CA	(213) 329-8000
Aspen Ribbons	o	ARIB	189	186	197	196	Lafayette, CO	(303) 666-5750
Athey Products	o	ATPC	161	147	140	150	Raleigh, NC	(919) 556-5171
Avemco	n	AVE	97	86	34	55	Frederick, MD	(301) 694-5700
BHA Group	o	BHAGA	47	142	166	139	Kansas City, MO	(816) 356-8400
Biomet	o	BMET	146	87	50	22	Warsaw, IN	(219) 267-6639
Bolar Pharmaceutical	a	BLR	111	77	22	27	Copiegue, NY	(516) 842-8383
Boston Acoustics	o	BOSA	46	185	172	183	Peabody, MA	(617) 532-2111
WH Brady	o	BRCOA	158	65	77	72	Milwaukee, WI	(414) 332-8100
Brandon Systems	o	BRDN	27	171	175	167	Secaucus, NJ	(201) 392-0800
Bush Inds	a	BSH	35	99	123	140	Jamestown, NY	(716) 665-2000
Calgon Carbon	o	CRBN	29	44	21	10	Pittsburgh, PA	(412) 787-6700
Cambrex	o	CBAM	76	85	98	116	Bayonne, NJ	(201) 858-7900
Canonic Environmental Svcs	o	CANO	10	135	110	78	Porter, IN	(219) 926-8651
CareerCom	n	PTA	73	67	95	94	Lemoyne, PA	(717) 774-1477

a: American Stock Exchange. n: New York Stock Exchange. o: over-the-counter.

Sources: William O'Neil & Co.; Forbes

Company Directory

Company	Exch	Ticker	Where they rank				City, state	Telephone
			5-year average ROE	sales	profit	market value		
CEM	o	CEMX	72	195	183	154	Matthews, NC	(704) 821-7015
Chambers Development	a	CDVB	105	93	52	15	Pittsburgh, PA	(412) 242-6237
Cherokee Group	o	CHKE	82	63	64	73	Sunland, CA	(818) 951-1002
Chili's	o	CHLI	165	32	88	69	Dallas, TX	(214) 980-9917
Cimco	o	CIMC	190	143	155	153	Costa Mesa, CA	(714) 546-4460
Cintas	o	CTAS	114	35	40	17	Cincinnati, OH	(513) 489-4000
Clayton Homes	n	CMH	120	36	58	75	Knoxville, TN	(615) 970-7200
Computer Entry Systems	o	CESC	191	104	150	165	Silver Spring, MD	(301) 622-3500
CPI	o	CPIC	65	3	19	28	St Louis, MO	(314) 231-1575
Crawford & Co	o	CRAW	94	14	43	45	Atlanta, GA	(404) 256-0830
AT Cross	a	ATXA	67	38	12	14	Lincoln, RI	(401) 333-1200
C&R Clothiers	o	CLTH	192	117	190	180	Culver City, CA	(213) 559-8200
Daxor	a	DXR	144	200	145	163	New York, NY	(212) 935-1430
Diagnostic Prods	n	DP	107	149	72	50	Los Angeles, CA	(213) 776-0180
Digital Commun Associates	n	DCA	127	28	9	33	Alpharetta, GA	(404) 442-4000
Dionez	o	DNEX	147	114	70	51	Sunnyvale, CA	(408) 737-0700
Dress Barn	o	DBRN	24	39	46	38	Stamford, CT	(203) 327-4242
Dreyfus	n	DRY	65	17	1	2	New York, NY	(212) 715-6000
DST Systems	o	DSTS	145	69	33	49	Kansas City, MO	(816) 435-1000
Duquesne Systems	o	DUQN	115	137	78	62	Pittsburgh, PA	(412) 323-2600
Dyansen	o	DYAN	195	167	199	199	New York, NY	(212) 644-5100
Dycom Industries	o	DYCO	123	82	129	112	W Palm Beach, FL	(407) 659-6301
Eaton Vance	o	EAVN	51	133	69	108	Boston, MA	(617) 482-8260
ECC Intl	n	ECC	159	144	133	146	Scrifford, PA	(215) 687-2600
Eldon Industries	n	ELD	166	95	100	96	Inglewood, CA	(213) 642-7716
Electromagnetic Sciences	o	ELMG	116	113	94	124	Norcross, GA	(404) 448-5770
Emcon Associates	o	MCON	87	176	169	144	San Jose, CA	(408) 275-1444
Engraph	o	ENGH	197	68	116	99	Atlanta, GA	(404) 329-0332
ERC Intl	n	ERC	92	72	120	133	Fairfax, VA	(703) 246-0200
Expeditors Intl	o	EXPD	36	66	109	101	Seattle, WA	(206) 246-3711
Fabricland	o	FBRG	156	119	168	174	Portland, OR	(503) 666-4511
Family Steak Houses of Fla	o	RYFL	174	168	188	176	Neptune Beach, FL	(904) 249-4197
Fastenal	o	FAST	38	172	170	104	Winona, MN	(507) 454-5374
FlightSafety Intl	n	FSI	112	64	5	3	Flushing, NY	(718) 565-4100
Franklin Resources	n	BEN	4	41	3	12	San Mateo, CA	(415) 570-3000
Frontier Insurance Group	o	FRTR	89	150	101	145	Monticello, NY	(914) 794-8000
Geodynamics	o	GDYN	80	146	152	161	Santa Barbara, CA	(805) 964-9905
Gerber Scientific	n	GRB	154	16	14	19	South Windsor, CT	(203) 644-1551
Giga-Tronics	o	GIGA	100	189	147	168	Pleasant Hill, CA	(415) 680-8160
GoodMark Foods	o	GDMK	11	79	136	132	Raleigh, NC	(919) 790-9940
Graco	n	GGG	131	20	56	84	Minneapolis, MN	(612) 623-6000
Groff Industries	o	GROF	194	153	194	191	Tampa, FL	(813) 961-1331

a: American Stock Exchange. n: New York Stock Exchange. o: over-the-counter.

Sources: William O'Neil & Co.; Forbes

Company Directory

Company	Exch	Ticker	Where they rank				City, state	Telephone
			5-year average ROE	sales	profit	market value		
Group 1 Software	o	GSOE	21	193	173	149	Greenbelt, MD	(301) 982-2000
Guardman Products	n	GPI	183	70	114	119	Grand Rapids, MI	(616) 957-2600
G&K Services	o	GKSRA	141	97	96	79	Minneapolis, MN	(612) 546-7440
John H Harland	n	JH	60	7	7	5	Decatur, GA	(404) 981-9460
Healthcare Services Group	o	HCSG	196	158	184	155	Huntingdon Valley, PA	(215) 938-1661
Heartland Express	o	HILD	23	163	135	137	Coralville, IA	(319) 645-2728
Jack Henry & Associates	o	JKHY	32	187	200	197	Monett, MO	(417) 235-6652
Howell Industries	a	HOW	74	130	141	179	Southfield, MI	(313) 424-8220
Hunt Manufacturing	n	HUN	118	51	53	40	Philadelphia, PA	(215) 732-7700
HWC Distribution	o	HWCD	13	88	113	130	Houston, TX	(713) 635-4800
Informix	o	IFMX	43	116	111	100	Menlo Park, CA	(415) 322-4100
Inmac	o	INMC	31	29	80	88	Santa Clara, CA	(408) 727-1970
Innovex	o	INVX	63	173	191	187	Hopkins, MN	(612) 938-4155
Interface	o	IFSIA	170	4	42	44	LaGrange, GA	(404) 882-1891
Interface Systems	o	INTF	95	174	159	170	Ann Arbor, MI	(313) 769-5900
Intertrans	o	ITRN	85	78	154	134	Irving, TX	(214) 929-8888
Intl Dairy Queen	o	INDQA	9	25	35	36	Minneapolis, MN	(612) 830-0200
Iaco	o	ISKO	184	165	139	123	Lincoln, NE	(402) 464-0231
Iverson Technology	a	IVT	26	126	134	143	McLean, VA	(703) 749-1200
Jackpot Enterprises	n	J	176	170	130	115	Las Vegas, NV	(702) 369-3424
Juno Lighting	o	JUNO	37	124	67	65	Des Plaines, IL	(312) 827-9880
Keystone Intl	n	KII	177	1	16	16	Houston, TX	(713) 466-1176
King World Productions	n	KWP	2	13	4	6	Short Hills, NJ	(201) 522-0100
Lawrence Insurance Group	a	LWR	188	112	106	93	New York, NY	(212) 674-8753
Lawson Products	o	LAWS	91	62	29	25	Des Plaines, IL	(312) 827-9666
LDI	o	LDIC	59	57	119	125	Cleveland, OH	(216) 587-0100
Lee Enterprises	n	LEE	56	21	10	7	Davenport, IA	(319) 383-2302
LIN Broadcasting	o	LINB	187	18	2	1	New York, NY	(212) 765-1902
Lindal Cedar Homes	o	LNDL	109	145	174	195	Seattle, WA	(206) 725-0900
Liqui-Box	o	LIQB	68	105	102	107	Worthington, OH	(614) 888-9280
LSI Lighting Systems	o	LYTS	90	152	157	152	Cincinnati, OH	(513) 793-3200
Luby's Cafeterias	n	LUB	93	22	17	20	San Antonio, TX	(512) 654-9000
MacNeal-Schwendler	a	MNS	54	151	83	76	Los Angeles, CA	(213) 258-9111
Marietta	o	MRTA	128	181	181	172	Cortland, NY	(607) 753-6746
McClain Industries	o	MCCL	102	157	176	158	Sterling Heights, MI	(313) 264-3611
McGrath RentCorp	o	MGRC	84	156	112	126	San Lorenzo, CA	(415) 276-2626
Medex	o	MDEX	185	169	160	142	Hilliard, OH	(614) 876-2413
Medicine Shoppe Intl	o	MSII	138	180	117	80	St Louis, MO	(314) 993-6000
Melamine Chemicals	o	MTWO	1	159	103	122	Donaldsonville, LA	(504) 473-3121
Mentor Corp	o	MNTR	134	148	104	92	Santa Barbara, CA	(805) 967-3451
MicroBilt	o	BILT	167	175	143	109	Atlanta, GA	(404) 955-0313
Modern Controls	o	MOCO	108	198	192	184	Minneapolis, MN	(612) 560-2900

a: American Stock Exchange. n: New York Stock Exchange. o: over-the-counter.

Sources: William O'Neill & Co.; Forbes

Company Directory

Company	Exch	Ticker	Where they rank				City, state	Telephone
			5-year average ROE	sales	profit	market value		
Morino Associates	o	MOAI	14	139	86	77	Vienna, VA	(703) 734-9494
MTS Systems	o	MTSC	171	81	85	103	Minneapolis, MN	(612) 937-4000
Myers Industries	a	MYE	199	56	107	102	Akron, OH	(216) 253-5592
Mylan Labs	n	MYL	17	92	18	31	Pittsburgh, PA	(412) 232-0100
Napco Security Systems	o	NSSC	34	155	137	131	Amityville, NY	(516) 842-9400
National Computer Systems	o	NLCS	155	30	54	46	Minneapolis, MN	(612) 829-3000
National Insurance Group	o	NAIG	132	192	146	120	San Bruno, CA	(415) 872-6772
Neutrogena	o	NGNA	19	54	30	9	Los Angeles, CA	(213) 642-1150
New England Business Services	o	NEBS	52	34	26	26	Groton, MA	(508) 448-6111
New York Marine & Gen'l Ins	o	NYMG	121	107	49	86	New York, NY	(212) 953-0580
Nordson	o	NDSN	113	24	15	21	Westlake, OH	(216) 892-1580
Northwest Teleproductions	o	NWTL	58	197	195	198	Minneapolis, MN	(612) 835-4455
Ohio Art	a	OAR	61	120	138	181	Bryan, OH	(419) 636-3141
Oil-Dri Corp of America	o	OILC	135	115	108	91	Chicago, IL	(312) 321-1515
Par Pharmaceutical	n	PRX	77	96	68	82	Spring Valley, NY	(914) 425-7100
Paychex	o	PAYX	69	101	90	52	Rochester, NY	(716) 385-6666
PCS	o	PCSI	7	103	65	58	Scottsdale, AZ	(602) 391-4600
Penn Treaty American	o	PTAC	30	190	158	190	Allentown, PA	(215) 437-9617
Piccadilly Cafeterias	o	PICC	148	26	76	83	Baton Rouge, LA	(504) 293-9440
Pioneer Group	o	PIOG	28	128	60	97	Boston, MA	(617) 742-7825
Policy Management Systems	o	PMSC	193	43	37	24	Columbia, SC	(803) 735-4000
Polymer Intl	o	PICI	149	98	92	128	Tampa, FL	(813) 286-8680
Pratt & Lambert	a	PM	119	27	84	98	Buffalo, NY	(716) 873-6000
T Rowe Price Associates	o	TROW	16	71	27	53	Baltimore, MD	(301) 547-2000
Products Research & Chemical	n	PRC	139	91	89	90	Glendale, CA	(818) 240-2060
Programming & Systems	o	PSYS	181	182	178	177	Greenwich, CT	(203) 622-7661
Pulaski Furniture	o	PLFC	173	84	118	138	Pulaski, VA	(703) 980-7330
Quaker Chemical	o	QCHM	182	67	73	95	Conshohocken, PA	(215) 828-4250
Quarex Industries	o	QRXI	198	58	187	194	Ridgewood, NY	(718) 821-0011
Quiksilver	o	QUIK	3	140	149	151	Costa Mesa, CA	(714) 645-1395
Reeds Jewelers	o	REED	25	132	179	175	Wilmington, NC	(919) 350-3100
Regal-Beloit	a	RBC	150	75	79	74	South Beloit, IL	(815) 389-1920
Republic American	o	RAWC	53	19	20	43	Encino, CA	(818) 990-9860
Respironics	o	RESP	5	194	198	185	Monroeville, PA	(412) 373-8114
Rockaway	n	RKY	168	118	126	118	Parsippany, NJ	(201) 335-1126
Rollins Environmental Services	n	REN	64	40	11	4	Wilmington, DE	(302) 479-2757
Ryan's Family Steak House	o	RYAN	130	49	39	37	Greer, SC	(803) 879-1000
Shorewood Packaging	o	SHOR	12	90	63	60	New York, NY	(212) 371-1500
Sigma Designs	o	SIGM	15	123	99	129	Fremont, CA	(415) 770-0100
Simpson Industries	o	SMPS	179	61	93	105	Birmingham, MI	(313) 540-6200
Sizzler Restaurants Intl	o	SIZZ	163	5	32	41	Los Angeles, CA	(213) 827-2300
S-K-I Ltd	o	SKII	157	110	121	121	Killington, VT	(802) 422-3333

a: American Stock Exchange. n: New York Stock Exchange. o: over-the-counter.

Sources: William O'Neil & Co.; Forbes

Company Directory

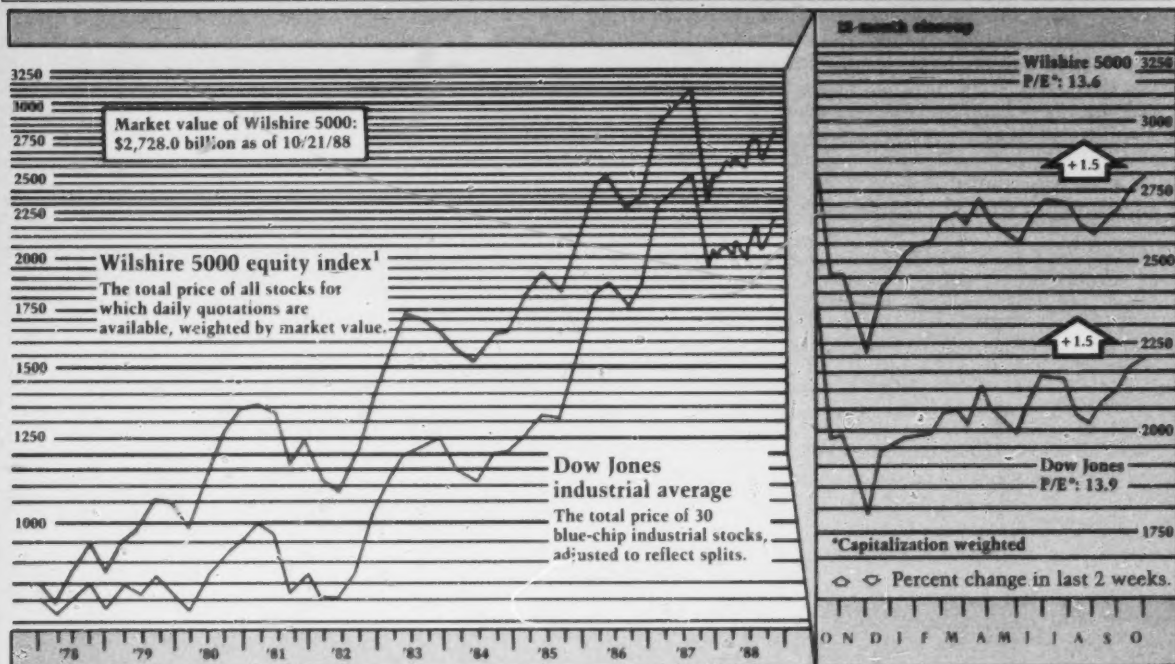
Company	Exch	Ticker	Where they rank				City, state	Telephone
			5-year average ROE	sales	profit	market value		
Sound Advice	o	SUND	40	129	171	189	Fort Lauderdale, FL	(305) 922-4434
Sound Warehouse	o	SWHI	42	46	128	113	Dallas, TX	(214) 343-4700
Spartan Motors	o	SPAR	86	161	164	171	Charlotte, MI	(517) 543-6400
Spec's Music	o	SPEK	98	160	185	164	Miami, FL	(305) 592-7288
LS Starrett	n	SCX	151	53	45	64	Athol, MA	(508) 249-3551
Stepan	a	SCL	200	2	62	81	Northfield, IL	(312) 446-7500
Stockholder Systems	o	SSIAA	104	184	148	157	Norcross, GA	(404) 441-3387
Stryker	o	STRY	124	59	57	32	Kalamazoo, MI	(616) 381-3811
Superior Industries Intl	a	SUP	125	47	75	87	Van Nuys, CA	(818) 781-4973
Swift Energy	a	SFY	162	196	131	169	Houston, TX	(713) 874-2700
Syms	n	SYM	83	15	38	59	Secaucus, NJ	(201) 902-9600
Systematics	o	SYST	101	45	44	35	Little Rock, AR	(501) 223-5100
S&K Famous Brands	o	SKFB	178	134	180	178	Richmond, VA	(804) 346-2500
TJ Intl	o	TJCO	133	11	51	67	Boise, ID	(208) 345-8500
TCI Intl	o	TCII	180	127	127	135	Fremont, CA	(415) 795-7800
Technalysis	o	TECN	75	191	193	193	Minneapolis, MN	(612) 925-5900
Teleflex	a	TFX	142	6	28	39	Limerick, PA	(215) 948-5100
Telxon	o	TLXN	136	76	59	61	Akron, OH	(216) 867-3700
Tennant	o	TANT	172	50	74	85	Minneapolis, MN	(612) 540-1200
Thermal Industries	o	THMP	117	166	196	200	Pittsburgh, PA	(412) 244-6400
Thermo Instrument Systems	a	THI	137	94	91	66	Waltham, MA	(617) 622-1605
3Com	o	COMS	89	12	23	13	Santa Clara, CA	(408) 562-6400
Tootsie Roll Industries	n	TR	94	83	47	42	Chicago, IL	(312) 838-3400
Total System Services	o	TSYS	78	131	87	29	Columbus, GA	(404) 649-2310
Traditional Industries	o	TRAD	99	136	125	159	Agoura Hills, CA	(818) 991-2773
Trans World Music	o	TWMC	20	31	71	54	Albany, NY	(518) 452-1242
Tricon	o	TRON	143	141	162	148	Sanford, NC	(919) 775-2201
Tyco Toys	o	TTOY	55	33	82	111	Mount Laurel, NJ	(609) 234-7400
Uniforce Temp Personnel	o	UNFR	70	102	161	136	New Hyde Park, NY	(516) 437-3300
Uni-Marts	o	UNMAA	57	73	163	141	State College, PA	(814) 234-6000
Value Line	o	VALU	6	111	31	56	New York, NY	(212) 687-3965
Versa Technologies	o	VRSA	39	138	115	114	Racine, WI	(414) 632-6622
Video Display	o	VIDE	49	162	165	156	Stone Mountain, GA	(404) 938-2080
Vishay Intertechnology	n	VSH	160	89	48	48	Malvern, PA	(215) 644-1300
VM Software	n	VM	8	154	132	106	Reston, VA	(703) 264-8000
Watts Industries	o	WATTA	152	48	36	34	North Andover, MA	(617) 688-1811
WD-40	o	WDFC	16	108	55	47	San Diego, CA	(619) 275-1400
Weigh-Tronix	o	WGHT	186	122	124	127	Fairmont, MN	(507) 238-4461
Wellman	n	WLM	22	8	13	11	Clark, NJ	(201) 388-0120
Roy F Weston	o	WTNA	153	55	122	89	West Chester, PA	(215) 692-3030
AL Williams	o	ALWC	79	9	8	30	Duluth, GA	(404) 381-1674
XL/Datacomp	o	XLDC	41	37	81	68	Hinsdale, IL	(312) 323-1200

a: American Stock Exchange. n: New York Stock Exchange. o: over-the-counter.

Sources: William O'Neil & Co.; Forbes

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Stocks look a lot better now than they did 52 weeks ago. Last year the Dow industrials finished the volatile week of the crash by closing at 1950 on Friday, Oct. 23. On that date, amidst all the uncertainty surrounding the stock market, the Dow industrials sold for 16.6 times latest 12-month earnings while the overall market, as measured by the Wilshire index, had a P/E of 17.2. One year later, and under much calmer conditions, the Dow and Wilshire are up 11.9% and 15.2%, respectively. And a healthy rise in

corporate earnings has brought the Dow multiple down to 13.9 and the Wilshire multiple to 13.6.

In the last two weeks the market finally broke out of its narrow trading range. The Dow finished with a 1.5% gain and at a new postcrash high, 2183. Most other major market indicators hit new peaks on the last or next to last trading day. The S&P 500 is now higher than it was at the close on Oct. 16, 1987. On that Friday just before Black Monday, the Dow lost 109 points.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ²	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	4.0	4.8	4.4	4.6	2.3	0.9
in last 52 weeks	15.2	14.0	11.9	14.5	15.8	18.3

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility ³		P/E multiple		Dividend yield		Growth profile ⁴		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over \$34	under \$4
in last 4 weeks	4.2	-0.5	1.8	1.7	0.3	3.4	1.3	4.1	0.7	2.7	3.6	-1.6
in last 52 weeks	21.4	50.2	60.6	22.9	29.2	30.1	18.4	66.5	59.8	25.7	24.5	41.7

¹Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. ²Based on sales.

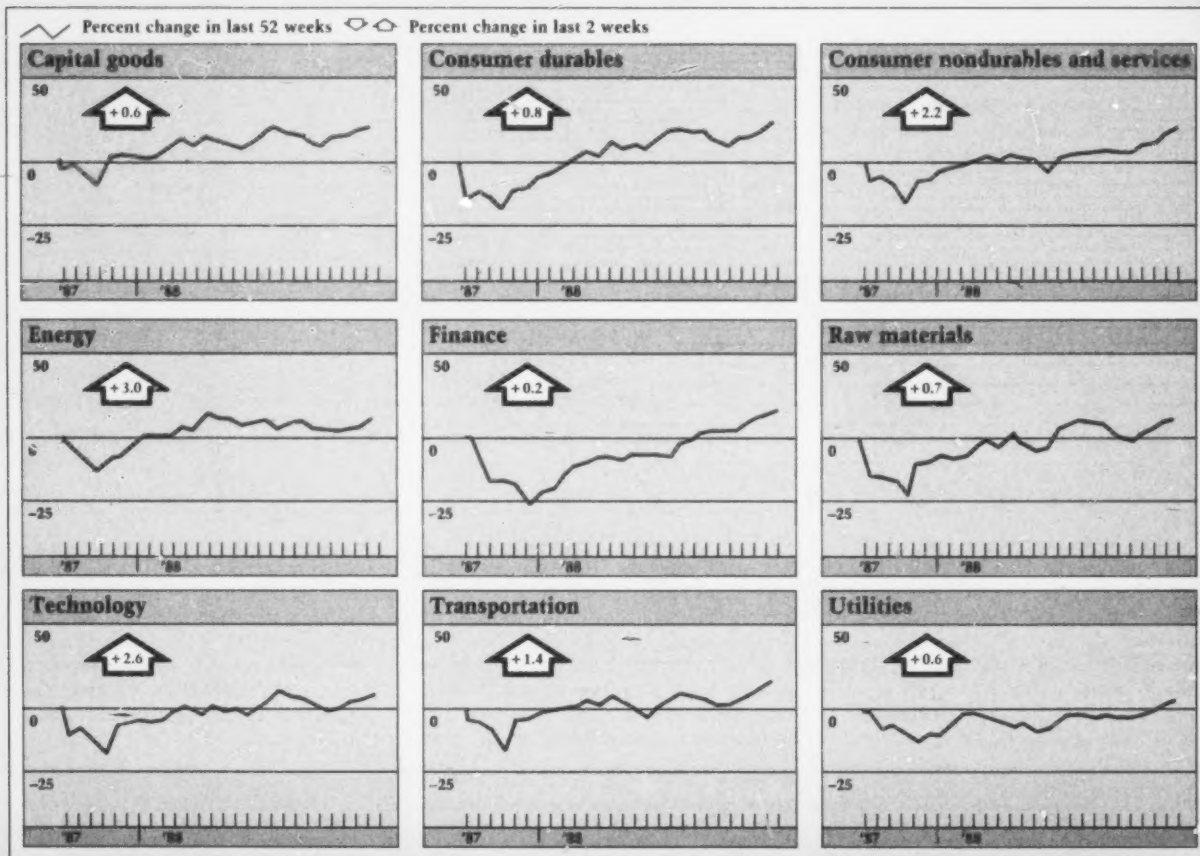
³A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. ⁴A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 10/21/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Where the Action Is

Takeover action. Acquisitions and takeover offers led the market higher. Proposed deals announced during the last two weeks—Kraft, RJR Nabisco—amount to around \$30 billion. The market is probably headed for another major wave of takeovers, given the amount of money rumored to be sitting in the hands of takeover specialists and the low P/E multiples on many major corporations. Stephen Leeb,

editor of the market newsletter *Indicator Digest*, in Palisades Park, N.J., thinks that B.F. Goodrich is a likely candidate for acquisition or restructuring. What makes Goodrich attractive, according to Leeb, is its \$12-per-share cash flow. Goodrich is now completely out of the tire business and its stock recently traded at 56, only nine times earnings.



What the Analysts Think

Lower horizons. The 1988 earnings estimate for Lorimar Telepictures dropped from 41 cents to 8 cents per share while Farah Inc.'s estimate went from 71 cents to 51

cents. Cummins Engine, Louisiana Land & Exploration, National Semiconductor and Management Science of America also had big estimate cuts.

Forecasting the Forbes Sales 500			Rank based on change in estimate		Sector		Estimated 1988		% change in 1988 estimate	
Performance period	Average earnings per share	P/E					EPS	P/E	in 2 weeks	in 4 weeks
latest 12 months	\$3.19	12.6	1		Consumer durables		\$4.77	11.1	0.29%	0.88%
1988 estimates	3.58	11.3	2		Transportation		2.25	12.6	0.18	-1.83
1989 estimates	3.96	10.2	3		Raw materials		3.18	9.9	-0.01	0.18
			4		Utilities		2.39	10.5	-0.12	-0.06
			5		Energy		3.20	12.4	-0.14	-0.37
			6		Consumer nondurables		2.50	14.6	-0.28	-0.54
			7		Capital goods		2.61	14.4	-0.46	-0.38
			8		Finance		3.39	9.0	-0.67	-0.60
			9		Technology		2.91	12.1	-0.80	-1.26

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 10/21/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.